Master of Business Administration

MBA-3.44
Industrial & Service Marketing

Uttar Pradesh Rajarshi Tandon Open University

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BLOCK

1

SERVICES MARKETING : CORE CONSIDERATIONS

UNIT-1

Industrial Services

UNIT-2

Marketing Mix

UNIT-3

Strategies for Managing Inconsistency

UNIT-4

Segmentation : Targeting and Positioning of Services

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BLOCK INTRODUCTION

In **Block 1** you have learnt about the services marketing: an introduction; industrial services, marketing mix, strategies for managing inconsistency and segmentation: targeting and positioning of services.

Unit 1 discusses about industrial services: importance of services marketing, services marketing management process and introduction to services.

Unit 2 explains marketing mix; people, the key role of service employees in a service business, concept of service encounter, moment of truth; physical evidence: nature, importance services cape; process service: as a process, as a system, different aspects and managerial challenges.

Unit 3 deals with strategies for managing inconsistency; employee and customer: roles in services.

Unit 4 deals with segmentation: targeting and positioning of services; services design and development; service blueprinting; service process.

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UNIT-01 INDUSTRIAL SERVICES

UNIT FRAMEWORK

1.1   OBJECTIVES

After completing this unit you will be able to:

➢   to explain the concept of industrial services

➢   to elaborate characteristics of services and classifications of services

➢   to know the industrial service marketing and importance of services marketing

➢   to examine the differences between industrial marketing and service marketing

➢   to discuss the services marketing management process.

1.2   INTRODUCTION

The fundamentals of Industrial marketing are quite different from the consumer marketing as the orientation of the industrial market is a bit different. The industrial marketers face many distinctive marketing situations not normally encountered in the consumer market. It focuses on all the factors that affect industrial demand. Here the quantum of customers is low but business volume per

customer is significantly high therefore the business communications and rapport building are often one to one. The impact of technological changes in the success of any marketing firm is huge. The consistent improvement in the standard of living enjoyed by customers ever since the industrial revolution has been driving and dictating the direction of any nation's economic growth and development. Slight changes in technology often render investment in capital assets and the whole business useless. it also creates opportunities for some to ride on the wave of changes and harvest best from it. Therefore the marketers must react swiftly to the changes in the market, must endeavour to develop and upgrade products consistently and market them exclusively to their sophisticated customers as permissible under their corporate policies.

All industrial and economic activities can be divided into three broad categories, namely, primary, secondary and tertiary. The Primary activities include agriculture, fishing, forestry, and mining etc., the Secondary activities comprise manufacturing, processing and construction etc. whereas, the Tertiary activities consists of services and distribution etc. Of late services have shown a remarkable growth when compared to others. Now a days services form a major part of economic activities all across the world. The service sector is huge and varied. Some of the examples of the services include banking, insurance, transportation, communication, education, healthcare, Legal services, research & consultation, accounting, tourism, hospitality and information services etc.

Previously, the concept of service was that of benefit attached to a physical product as if it doesn't have a separate identity from the physical product. Now an upside down shift has evolved in the concept of service and the service industry at present has attained a place of its own which is quite independent and different from physical goods. Hence service industries are now considered fundamentally different from manufacturing industries.

Customer has a vital role to play in the production process as the services are created spontaneously and provided simultaneously as solution in response to the problems of customers. Since there is essentially no transfer of title of goods in a transaction of a service, the production of the service may or may not be closely associated with a physical product. Services can be termed as an activity or series of activities rather than things which has some element of intangibility associated with it, which involves some interaction between the customer and the service provider, and does not result in a transfer of ownership.

1.3   INDUSTRIAL SERVICES

The growing importance of service industry in today's context has forced the academic interest towards the service sector. Basically industrial and economic activities have been classified into three categories viz. primary, secondary and tertiary. Primary activities are concerned with agriculture, fishing, mining and forestry. Secondary activities include manufacturing and construction, whereas tertiary activities comprise services and distribution. Before the industrial development, the primary and secondary activities were the mainstay of the economy. But the process of commercialization has emphasized the priority of service sector. In present era, it has become major industry and has apex

importance in the economy. However the term service is very simple to say but it is very difficult to explain in precise words because it is general in concept. Services are economic activities that create value and provide benefits for customers. It is an act or performance offered by one person another and which is especially separately identifiable, intangible, non-transfer of ownership and perishable in character. Services includes a wide variety of activities i.e. utilities, law enforcing, civil, administrative and defense, transport and communication, distribution traders, business profession, leisure and recreation. The growth of service industry is the result of economic development of the society and socio-cultural change among the people. Sometimes, it may be possible that the specific service industry is the result of a combination of several reasons.

Services are economic activities that create value and provide benefits to customers at specific times and places as specified by the recipient of the service. Services are those separately identifiable, essentially intangible activities which provide want-satisfaction, and that are not necessarily tied to the sale of a product or another service. To produce a service may or may not require the use of tangible goods. However when such use is required, there is no transfer of title (permanent ownership) to these tangible goods.

1.4 CHARACTERISTICS OF SERVICES

It is utmost important to explore the distinctive features of services, because recognition of these special characteristics will provide insights for enlightened and innovative management. One reason for the poor quality of service levels across different service industries is that managers often tend to solve service marketing problems with tools and techniques that are essentially meant for tangible products. It happens because of inadequate understanding about the nature of services. As our knowledge of the characteristics of services grows, so does our ability to deal with them from both an economic and marketing perspective. Services have a number of unique characteristics that make them different from products. Some of most commonly accepted characteristics are as follows:

(i) **Intangibility:** The most basic and universally cited characteristic of services is intangibility, because services are performances or actions rather than objects, they cannot be seen, felt, tasted, or touched in the same manner that we can sense tangible goods. For example, when we buy a cake of soap, we can see, feel, smell and use to check its effectiveness in cleaning. But, when we pay fees for a semester in the university, we are paying for the benefits of deriving knowledge, skills and education which is delivered to us by teachers. Teaching is an intangible service. When we travel by plane, the benefit which we are deriving is a service (transportation) but, it has some tangible aspects such as the particular plane in which we fly (Boeing, Avro, Concorde, etc.) and the food and drink which are served.

(ii) **Heterogeneity:** Since services are performances, frequently produced by human beings, no two services will be precisely alike. The human element is very much involved in providing and rendering services and this makes

standardization a very difficult task to achieve. The doctor who gives us complete attention in one visit may behave a little differently in next visit. The new bank clerk who en-cashes our cheques may not be as efficient as the previous one and we may have to spend more time for the same activity. This is despite the fact that rules and procedures have been laid down to reduce the role of the human element and ensure maximum efficiency. Airlines, banks, hotels, etc. have a large number of standardized procedures. Human contact is minimal in the computerized reservation systems, but when we go to the hotel there will be a person at the reception to hand over the key of the reserved room. The way that person interacts with us will be an important factor in our overall assessment of the service provided by the hotel. The rooms, the food, the facilities may be all perfect, but it is the people interacting with us who make all the difference between a favourable and unfavourable perception of the hotel. Heterogeneity also results because no two customers are precisely alike; each will have unique demands or experience the service in a unique way. Thus, the heterogeneity connected with services is largely the result of human interaction (between and among employees and customers) and all of the vagaries that accompany it.

(iii) **Perishability:** Perishability refers to the fact that services cannot be saved, stored, resold, or returned. Since services are deeds, performances or act whose production and consumption takes place simultaneously, they tend to perish in the absence of consumption. Goods can be stored and sold at a later date in the absence of a customer. Services, on the other hand, go waste if they are not consumed. A seat on an airplane or in a restaurant, an hour of a professor's time, or telephone line capacity not used cannot be reclaimed and used or resold at a later time.

(iv) **No Transfer of Ownership:** When we buy a product, we become its owner-be it a pen, book, shirt, TV or Car. In the case of a service, we may pay for its use, but we never own it. By buying a ticket one can see the evening film show in local cinema theatre; by paying wages one can hire the services of a chauffeur who will drive his car; by paying the required charges we can have a marketing research firm survey into the reasons for our product's poor sales performance, etc. In case of a service, the payment is not for purchase, but only for the use or access to or for hire of items or facilities; and transfer of ownership does not take place.

(v) **Labour Intensity**: Services usually involve considerable human activity, rather than precisely determined process. Human resource management is important. The human factor is often the key success factor in service industries. It is difficult to achieve economies of scale or gain dominant market share.

(vi) **Demand fluctuations:** It can be difficult to forecast demand (which is also true of many goods). Demand can vary by season, time of day, business cycle, etc.

(vii) **Buyer involvement:** Most service provision requires a high degree of interaction between client and service provider.

DIFFERENCES BETWEEN PHYSICAL GOODS AND SERVICES

Physical Goods	Services
A thing	An activity or process
Tangible	Intangible
Homogeneous	Heterogeneous
Production and distribution are separated from consumption.	Production, distribution and consumption are simultaneous process.
Core value produced in factory	Core value produced in buyer-seller interactions.
Customers do not participate in the production process.	Customer may participate in the production
Can be kept in stock.	Cannot be kept in stock.
Transfer of ownership.	No transfer of ownership.

(**Source:** Christian Gronross, Service management and Marketing, Massachusetts: Lexington Books, 1990, p. 28.)

1.5 CLASSIFICATIONS OF SERVICES

The service sector can best be characterized by its diversity. Service organisations range in size from huge international corporations in such fields as airlines, banking, insurance, telecommunication, hotel chains, and freight transportation to a vast array of locally owned and operated small businesses, including restaurants, laundries, taxis, and numerous business to business services. Franchised service outlets- in fields ranging from fast food to book keeping- combine the marketing characteristics of a large chain that offers a standardized product with local ownership and operation of a specific facility.

Transportation services	Entertainment services	Financial and Insurance services
• Railway	• Motion pictures	• Banking
• Airlines	• Video parlours	• Leasing
• Local and Inter-state passenger transportation	• Game parlours	• Security and brokerage
• Road transportation	• Theme parks and Party	• Investment banking
• Helicopter service	• Event management	• Retail banking
• Private aircraft services	• Discos and	• Insurance
• Water transportation	• Bowl parks	• Credit reporting
	• Clubs	

Government provided services	Real estate services	Marketing related services
Government provided services • Infrastructure & Defense • Police and Transport • Broadcasting • Education & Medical **Public utilities services** • Water supply services • Electric supply • Gas supply	**Real estate services** • Renting • Investment consultants • Property consultants • Building and • Real estate management **Hospitality services** • Hotels & restaurants • Catering • Home delivery	**Marketing related services** • Marketing consultancy • Advertising • Tele-marketing • Sales promotion • New product development • New product testing • Market research **Trading services** • Wholesaling and Retailing
Engineering services • Equipment inspection • Designing & ERP • Construction design • Architectural • Facility planning • Technical research	**Communication services** • Telephone • Postal and Courier • Radio and TV broadcasting • Telecommunication • Tele-conferencing • Satellite	**Business and professional services** • Records management • Management consultancy • Legal & Accounting • Meeting facilities • Office management
Others services • Janitorial • Security • Public relations • Land scaping / Lawn care • Printing • Data processing • Speech writing • Professional speaking	• Educational • Training • Travel related • Courier • Health and hospital • Equipment rental • Interior designing • Laundry and cleaning	• Computer programming • Personal grooming • Fax • Old age homes • Ware housing • Window dressing • Repair and maintenance • Home-help

1.6 INDUSTRIAL SERVICE MARKETING

The word Industrial Marketing is also treated as Business-to-Business Marketing, or Business Marketing, or Organizational Marketing. Industrial marketing/business marketing is to market the products and services to business organizations: manufacturing companies, government undertakings, private sector organisations, educational institutions, hospitals, distributors, and dealers. The business organizations, buy products and services to satisfy many objectives like production of goods and services, making profits, reducing costs, and, so on. In contrary, marketing of products and services to individuals, families, and households is made in consumer marketing. The consumers buy products and services for their own consumption.

Further, industrial marketing consists of all activities involved in the marketing of products and services to organizations that use products and services in the production of consumer or industrial goods and services, and to facilitate the operation of their enterprises.

Service firms lagged behind manufacturing companies in the application of marketing principles till recently. Many service organisations were either small which consider marketing not necessary or costly or unethical. The service sector has been found contributing substantially to the development process of any economy. The developments in the service sector and mounting competition in this field have been forcing service-generating firms to apply modern marketing principles. It is necessary to adopt marketing strategies by service firms not only for their survival and growth but also for satisfying the needs and expectations of their customers.

Marketing is a human activity directed at satisfying the needs and wants of consumers through exchange process. The British Institute of Marketing finds it as the management function which organizes and directs all those activities involved in assessing and converting customer purchasing power into effective demand for a specific product or service and to achieve the profit motive in moving the product to the final customers or users. Marketing is essentially a customer-oriented activity where satisfaction of customers is the focal point.

The American Marketing Association defines marketing as the performance of business activities that direct the flow of goods and services from producer to consumer or user. "Marketing is a social and managerial process by which individuals and groups obtained what they need and want through creating and exchanging products and value with others".

Service marketing is defined as the integrated system of business activities designed to plan, price, promote and distribute appropriate services for the benefit of existing and potential consumers to achieve organizational objectives. The perception of services marketing focuses on selling the services in the best interest of the customers. it is a systematic and coordinated effort of a service organisation to expand its market by delivering the best possible services. The objects of services marketing are the achievement of organizational goals like making profits, establishing leadership, long term survival and growth and the satisfaction of consumers by rendering excellent services.

The concept of services marketing covers the following aspects:

➢ selling services profitably to target consumers and prospects

➢ delivering maximum satisfaction to consumers of services; and

➢ positioning the service firm in the market.

Marketing is thus an integral part of service management. The managerial decisions are not found to be effective in the absence of a time bound implementation of marketing principles. Of late, customer satisfaction is found to be a focal point of the marketing decisions since the marketing process can help in offering the right services to the right persons at the right time. Marketing simplifies the process of transforming prospects into actual customers of services.

1.7   IMPORTANCE OF SERVICES MARKETING

The concept of marketing was not given much attention by most of the service organisations hitherto. Some service organisations like educational institutions, hospitals etc. once had so much demand that they did not need marketing until recently. Still others (legal, medical and accounting practices) believed that it was unethical to use marketing.

With the passage of time the service economy has gained momentum and has achieved growth far exceeding the growth of the industrial economy, especially in the developed countries. Services marketing ideas and techniques have thus grown alongside the growth of the service economy. Like manufacturing businesses, service firms ultimately felt the need to use marketing principles to position themselves strongly in the chosen target markets. The multi-faceted developments in the service sector and in the mounting intensity of competition have been engineering a strong foundation for the application of modern marketing principles in the service organisations. The following facts make it clear that the application of modern marketing principles by service generating organisations would pave avenues for qualitative and quantitative transformation: -

1. **Increase in the Disposable Income:** The disposable income of the people has been found to be increasing in recent years. This trend is also visible in developing countries like India. The increase in income in turn leads to demand for a number of services and thereby, new opportunities are created in the service sector. The positive developments in the service sector open new doors for an increase in disposable income. The moment an increase in disposable income is found, the process of demand generation gains a rapid momentum creating more opportunities for the development of services sector. The intensity of competition is found at its peak and this necessitates application of marketing principles.

2. **Increasing Specialization:** Organisations have now no option but to promote specialization since this helps them to be cost effective. The firms prefer to engage specialists for almost all purposes. Experts and professionals like consultants; legal advisors, financial experts, technocrats etc. play a decisive role in managing an organisation. Greater

specialization in management requires the services of experts and consultants in almost all areas. It is right to mention that due to growing specialization, service generating organisations would need a new culture influenced by corporate culture, and marketing practices can do a lot towards this end.

3. **Changing Lifestyles:** With the development of corporate culture and the emergence of a well-established services sector there would be a basic change in the lifestyles. The busy working environment and increased personal stress and strain would pave the way for development of innovative personal services like healthcare, fashion-designing, recreational centres, beauty parlours etc. The change in lifestyles creates new waves in the demand for specialised services and marketing can play a vital role in meeting the new aspirations of the consumers.

4. **Professional Excellence:** Corporate culture makes an advocacy in favour of performance orientation. The development of human resources would be given greater importance by all organisations either producing goods or services. Professional excellence thus would get a new priority and the masses would be tempted to the professional education. Excellence and professionalism in knowledge require the development of world-class educational institutions for almost all disciplines. The services sector would be professionalised in which only the world-class human resources can get a place. This will lead to greater efficiency in service organisations. The application of marketing principles along with this professionalism will make it easier to achieve the corporate goals.

5. **Information Explosion:** The inventions and innovations in the field of communications have been found fuelling information explosion. The tremendous opportunities generated by communications would influence almost all the sectors especially service industries like entertainment, advertisement, fashion designs etc. It is in this context that it is essential to practice the modern marketing principles so that the marketing information system plays a positive role in improving the quality of decisions.

6. **Sophistication in Market:** There is more sophistication in the modern market where consumer expectations would be greater and more complex in nature. There would be frequent changes in the hierarchy of needs and requirements of consumers that result in changes in the nature of market in terms of products or services required for that market. These multi-dimensional changes in the market necessitate the application of modern marketing principles.

7. **Increasing Governmental Activities:** The expanding governmental activities in almost all sectors of the economy would also make way for the development of the service sector. The latest trends in the trade and cultural exchange policies, the global partnership etc. would pave the way for more profitable growth of service sector. This will also lead to more positive and sophisticated qualitative changes in the service sector which calls for intensive use of innovative marketing principles.

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1.9 SERVICES MARKETING MANAGEMENT PROCESS

The American Marketing Association defines services marketing as an organizational function and a set of processes for identifying or creating, communicating, and delivering value to customers and for managing customer relationship in a way that benefit the organisation and stake-holders.

Services marketing are a specialised branch of marketing. Services marketing 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. Service marketing typically refers to both business to consumer (B2C) and business-to-business (B2B) services, and includes marketing of services such as telecommunications services, financial services, all types of hospitality, tourism leisure and entertainment services, car rental services, health care services and professional services and trade services. Service marketers often use an expanded marketing mix which consists of the seven Ps: product, price, place, promotion, people, physical evidence and process. A contemporary approach, known as service-dominant logic, argues that the demarcation between products and services that persisted throughout the 20th century was artificial and has obscured that everyone sells service. The S-D logic approach is changing the way that marketers understand value-creation and is changing concepts of the consumer's role in service delivery processes.

An analysis of the 5 Cs, i.e. our company, customer, competitor and collaborators as parts of the micro-environment, and the context or the macro-environment, is required to identify the value that we can offer customers. Segmenting the market and targeting the market are processes in identification of the customers that we decide to serve. The positioning statement is a culmination of the identification of the value to be offered to selected customers.
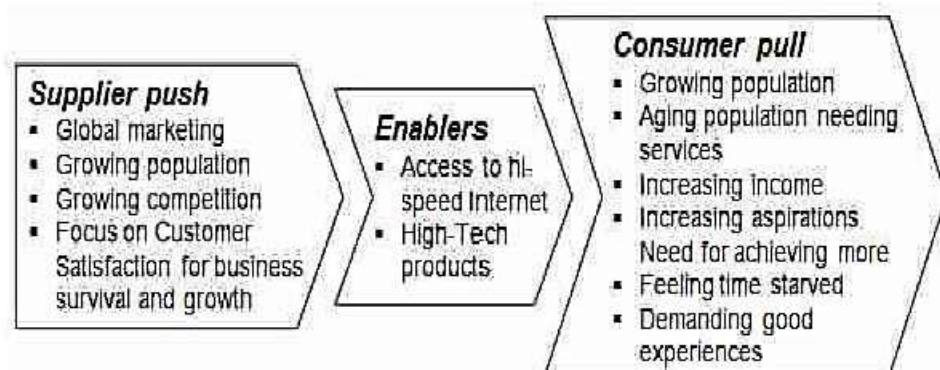
Then we move ahead with designing the service product, i.e. the service outcomes that the customer will be left with at the end of service delivery. We have to design the service process, i.e. a blueprint of how the service is going to be delivered. We may have noted that at this stage we are mainly creating value for the customers.

Next we have to think of delivering the value created in the above steps. We have to develop the people, both service personnel and the customers, who would be involved in producing and consuming the service as both of them are simultaneous activities in the case of services. We have to think about the channels through which we are going to distribute and deliver our services. Who would be our franchisees, retailers, agents, etc. helping to sell our service? Would customers have to come to our services cape to receive the service or would they receive the service where they desire it to be delivered? Would part or whole of the services be delivered over the telephone or the Internet? These channels of service distribution and delivery are termed as the 'place'. The ambience of the place, the aesthetics of the equipment's, merchandise, art and arte facts contribute to the feeling of satisfaction or delight for the customer. Hence, these physical evidences of the service have to be given special attention for delivering the service value.

Services Marketing Management Process

1. **Identifying value**	Context analysis	Customer analysis	Company analysis	Competitor analysis	Collaborator analysis
2. **Identifying customers**	Segmenting	Targeting	Positioning		
3. **Creating value**	Product	Process			
4. **Delivering value**	People	Place	Physical evidence		
5. **Communicating value**	Promotion				
6. **Capturing value**	Price				
7. **Sustaining value**	New Service Development	Customer Retention			

Now we have to communicate about the service to prospective customers through the process called promotion so that they are aware of how our service can meet their needs and the benefits that they would receive from the service. This will attract them to our services and help them decide to purchase our services. We would also take measures to brand our service in order to distinguish it from competitive services according to our positioning statement. This part of the marketing process is called communicating the service value.

Till now we have worried about providing value to our customers. It is now time to think about capturing part of the value so that our company makes a profit to sustain and grow in the marketplace. Moreover, the shareholders of our company would expect some dividend from our company. We can earn revenues through the price that customers pay for our services. The above 7Ps, i.e., product, process, people, place, physical evidence, promotion and price are collectively called the marketing mix for services. The marketing mix has to be designed so that they are consistent with each other and provide an image consistent with the positioning of our service in the minds of the customer.

Once the business starts rolling, we have to plan for sustaining our business for a long period of time. This can be done by developing new services and retaining existing customers.

1.10 SUMMARY

Slowly but consistently the services sector has evolved from the era of the industrial revolution and gained prominence these days. It has now established itself as distinct identity from marketing of tangible product in both practice and in the area of study.

There are various characteristics of services which make it so different from tangible products. Firstly, the services are intangible solutions to the customer's problems though in many cases, both tangible products and intangible services are part of a solution at varying proportions and it is often difficult to segregate services completely from its tangible product part. Examples of services include banking, insurance, transportation, communication, education, healthcare, Legal services, research & consultation, accounting, tourism, hospitality and information services etc.

Secondly, the services can't be stored. It has the element of perishability.

Thirdly, it is produced spontaneously in the presence of a customer and delivered simultaneously. A customer plays a major role in the process of service production and delivery therefore, the services are mostly heterogeneous.

Fourthly, it does not affect any transfer of ownership since it is intangible and can only be experienced.

And lastly, the production of services is labour intensive and experience demand fluctuations more than any tangible products.

Given the difficulty in identification of nature of different kind of services, several classifications of services have been proposed by many researchers which

are often overlapping. In fact services are so varied and diverse that one needs to classify them according to area of operation which need to be managed strategically.

Increase in the disposable income, changing lifestyles, explosion of information, emerging new areas of specialization and professional excellence and increasing governmental activities has brought in opportunities which has further enhanced the importance of the services sector in an economy.

1.11 SELF-ASSESSMENT QUESTIONS

1. What do you mean by services? How do services differ from products?

2. Define the concept of industrial services. What are characteristics of services?

3. Discuss the classifications of services.

4. What do you know about industrial service marketing? Explain it.

5. What is the importance of services marketing? Discuss it with examples.

6. Do you think that classification of services helps in developing the marketing strategy better? How?

7. Discuss the important characteristics of services with suitable examples. Also discuss what challenges they pose before service marketers.

8. What are differences between industrial marketing and service marketing?

9. Elaborate services marketing management process with suitable examples.

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UNIT-02 MARKETING MIX

UNIT FRAMEWORK

2.1   OBJECTIVES

After completing this unit you will be able to:

➢   to explain the key role of service employees in a service business

➢   to learn about the concept of service encounter and moment of truth

➢   to know the physical evidence: nature and importance services cape

➢   to elaborate process service: as a process, as a system

➢   to discuss the different aspects and managerial challenges.

2.2   INTRODUCTION

The services marketing mix is an extension of the 4-Ps framework of conventional marketing. The essential elements of *product, promotion, price* and *place* remain but three additional variables – *people, physical evidence and process* – are included to 7–**Ps mix**. The need for the extension is due to the high degree of direct contact between the CE (*Continuing Education*) providers and

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the customers, the highly visible nature of the service process, and the simultaneity of production and consumption. While it is possible to discuss people, physical evidence and process within the original-Ps framework (for example people can be considered part of the product offering) the extension allows a more thorough analysis of the marketing ingredients necessary for successful services marketing.

Modification to the traditional marketing mix is necessitated by the characteristics (namely intangibility, perishability, heterogeneity and simultaneous production and consumption) of services. For example, since services are produced and consumed simultaneously, service delivery people (front desk personnel, guides, phone personnel and so on) are involved in real-time promotion of the service even if their jobs are typically defined in terms of the operational function they perform. As services are usually produced and consumed simultaneously, customers are often present in the firm's factory', interact directly with the firm's personnel and are actually part of the service production process.. Such considerations have led services marketers to adopt the concept of an expanded marketing mix for services in the form of three additional Ps (namely people, physical evidence and process).

2.3   PEOPLE

In services, 'People' refers to all human actors who play a part in service delivery and thus influence the buyer's perceptions; namely, the firm's personnel, the customer, and other customers in the service environment. All of human actors participating in the delivery of a service provide cues to the customer regarding the nature of the service itself. How these people are dressed, their personal appearance, and their attitudes and behaviour's all influence the customer's perception of the service. If the service personnel are cold and rude, they can undermine all the marketing work done to attract the customers. If they are friendly and warm, they increase customer satisfaction and loyalty. Employee behaviour is often an integral part of the service product. This is not true in a manufacturing operation, where employee behaviour may affect product quality, but is not a part of the product.

People constitute an important dimension in the management of services in their role both as performers of services and as customers. People as performers of service are important because, a customer sees a company through its employees. The employees represent the first line of contact with the customer. They must, therefore, be well informed and provide the kind of service that wins customer approval. The firm must recognise that each employee is a salesman for the company's service. If these employees are not given training in how to go about face-to-face customer contact, the entire marketing effort may not prove to be effective. The importance of customers in services stems from the fact that most services imply active and involved customer-organisation interface. In many service situations, customers themselves can also influence service delivery, thus affecting service quality and their own satisfaction. Customers not only influence their own service outcomes, but they can influence other customers as well. People can be subdivided into:

(i) ***Service personnel:*** Service personnel are important in all organisations but more so in an organisation involved in providing services. The behaviour and attitude of the personnel providing the service is an important influence on the customer's overall perception of the service and he can rarely distinguish between the actual service rendered and the human element involved in it. Customer contact is very important concept in services, which refers to the physical presence of the customer in the system. The extent of contact refers to the percentage of time a customer ought to be in the system out of the total time it takes to serve him. The low contact services include bank, post offices or retailing and the high contact services include hotels, educational institutions, restaurants and hospitals. Services with high contact are more difficult to control and manage because a longer customer contact is more likely to affect the time of demand, and nature of service and its quality; whereas, in low contact services such contact has much less impact on the service. Therefore, the high contact personnel must be dexterous in public relations and inter-personal skills, and the low contact personnel must have high technical and analytical attributes. The quality and performance of service personnel can be improved through:

> ➤ Careful selection and training of personnel;
> ➤ laying down norms, rules and procedures to ensure consistent behaviour;
> ➤ ensuring consistent appearance; and
> ➤ reducing the importance of personal contact by introducing automation and computerization wherever possible.

(ii) ***Customers:*** Customers are important because they are a source of influencing themselves, being actively involved in service delivery, and other customers as well. In case of doctors, lawyers, consultant's one satisfied customer will lead to a chain reaction, bringing in his wake a number of other customers. So, it's an important task of service marketers to ensure complete satisfaction of the existing customers. The kind of customers that a firm attracts exerts an important influence on prospective customers. The prospective customer may feel attracted towards the organisation e.g., club, restaurant, school, because it has his type of customers or the customer may turn away if he perceives the existing customers to be a kind with whom he would not like to associate.

2.4 THE KEY ROLE OF SERVICE EMPLOYEES IN A SERVICE BUSINESS

Employees play a pivotal role in building an atmosphere of trust, confidence, and loyalty among your customers. Every member of the team has an opportunity to contribute to creating a compelling customer experience, or one that fails to deliver on your brand promise. Few would argue that staffs on the front line greatly influence the customer experience, but the reality is all employees play a role in reinforcing your company's commitment to the customer.

In the world of business, keeping customers satisfied and retaining them is vital to continued success. Often, the employees who work face-to-face with these customers are the ones who determine their levels of satisfaction, keeping them content with the company and preventing them from looking elsewhere for someone to meet their needs. Instead of ignoring the impact your employees can have upon the overall satisfaction levels of your client base, keep this power in mind and encourage employees to make the most of the power they wield, helping your business achieve success.

1. **Improving the Customer Experience:** To ensure employees are continuously focused on improving the customer experience, your customer-centric management philosophy must flow down forcefully from senior leadership through middle management and directly to employees. A clear and cohesive vision communicates to employees that the customer experience is not an isolated initiative or expectation for them alone, but that the entire organization is focused on building customer loyalty. Our recommendation:

2. **Ensuring Customer Satisfaction:** While those who don't deal directly with customers may be able to hypothesize what will make customers happy, only those who interact face-to-face can ensure that they are truly satisfied. To do this, however, employees must feel as if they are able to make modifications to the general business practices to truly satisfy their customers. If your employees feel compelled and empowered to meet customer needs, you can ensure higher levels of customer satisfaction and likely improved customer retention.

3. **Set clear expectations and hold employees accountable to a high standard of service:** Reinforce how they contribute to satisfying customers, and thus generating profits.

4. **Recognize success, both on a company and individual employee level:** When an employee does something extraordinary, use it as an opportunity to celebrate the achievement.

5. **Understand the factors that contribute to employee turnover:** Uncover the root cause of employee frustrations so they can be quickly addressed.

6. **Environment Creation:** Customers' impressions of a business depend in large part on the environment present in the workplace. While managers may have a preference as to how their workplace will feel, employees are the ones who actually set the scene. Employees impact the business environment through the ways in which they interact with each other as well as how they respond to customers. If employees behave in a professional-yet-inviting manner, they may be better able to please customers and make the business environment an inviting one.

7. **Provide ongoing coaching, training, and education:** Give employees the tools to make decisions that are beneficial for the company and each individual customer.

8. **Track performance:** Use metrics to measure and track both customer and employee satisfaction and retention.

9. **Relationship Building:** Ideally, customers and workers create relationships, keeping customers coming back. To craft these relationships, workers must do more than just the bare minimum and create connections with the individuals they serve. This may entail asking customers for details about their lives or remembering customers' common orders, allowing them to expedite the process in a fashion quite pleasing to the repeat customers. While management cannot enforce the building of relationships, they can select employees who appear open and willing to build relationships.

10. **Communicate effectively:** Keep your employees 'in the loop' when you implement any changes that stem from their feedback.

11. **Empower employees:** Give them the knowledge and resources to be successful; your customers will have a better experience because of it.

12. **Representing the Product:** Employees often provide customers with their initial impressions of the products the company offers. Though the workers who deal directly with customers may not be the people who select or develop products, they are the ones who give customers information about them, selling the products and proving to the customers that the products in question are ones they need. To ensure that workers can represent the products they sell effectively, managers must educate their workers on these products and ensure that they possess the knowledge necessary to tell workers about them in an informed and engaging manner.

2.5 CONCEPT OF SERVICE ENCOUNTER: MOMENT OF TRUTH

The *service encounter* is defined as all activities involved in the service delivery process. Some service managers use the term *"moment of truth"* to indicate that defining point in a specific service encounter where interactions are most intense.

The *delivery of a service* typically involves five factors:

➢ The service providers (e.g. the people)

➢ Equipment used to provide the service (e.g. vehicles, cash registers)

➢ The physical facilities (e.g. buildings, parking, waiting rooms)

➢ The client

➢ Other customers at the service delivery location

Many business theorists view service provision as a performance or act (sometimes humorously referred to as *dramalurgy*, perhaps in reference to

dramaturgy). The location of the service delivery is referred to as the stage and the objects that facilitate the service process are called props. A script is a sequence of behaviours followed by all those involved, including the client(s). Some service dramas are tightly scripted, others are more ad lib. Role congruence occurs when each actor follows a script that harmonizes with the roles played by the other actors.

In some service industries, especially health care, dispute resolution, and social services, a popular concept is the idea of the caseload, which refers to the total number of patients, clients, litigants, or claimants that a given employee is presently responsible for. On a daily basis, in all those fields, employees must balance the needs of any individual case against the needs of all other current cases as well as their own personal needs.

The service-goods continuum

The dichotomy between physical goods and intangible services should not be given too much credence. These are not discrete categories. Most business theorists see a continuum with pure service on one terminal point and pure commodity good on the other terminal point. Most products fall between these two extremes. For example, a restaurant provides a physical good (the food), but also provides services in the form of ambience, the setting and clearing of the table, etc. And although some utilities actually deliver physical goods like water utilities which actually deliver water utilities are usually treated as services.

In a narrower sense, service refers to quality of customer service: the measured appropriateness of assistance and support provided to a customer. This particular usage occurs frequently in retailing.

2.6 MOMENT OF TRUTH

The concept of the 'moments of truth' was promoted by Jan Carlson, the CEO of Scandinavia Airlines. After taking charge in 1981 as CEO, he adopted a customer-focused approach to turn around the company which was suffering a loss of $ 20 million. He identified 50,000 daily 'moments of truth' with the customers. By focusing on improvement of the moments of truth he could make Scandinavia Airlines earn $ 54 million in just twelve months. The concept is simple and easily adaptable. The service company should first identify those moments between employees and customers, customers and service environment, and between customers and systems and other processes that are capable of creating some specific experiences for the customer. The moments thus identified are to be assigned, by categorizing and classifying them into groups, to each employee involved in the interaction process. The employee concerned is responsible for managing the assigned moments. Management of moments of truth effectively is possible only when employees are adequately empowered. It also requires a high level of motivation as well as morale of the employees. This concept makes every employee creative and innovative. The employee will become conscious of what is happening in the moments assigned to him and become accountable for such moments for the company.

Management of moments of truth

The moments of truth need to be managed effectively by integrating company policies, procedures, service environment, employees' roles and customer roles.

A service encounter occurs when contact employee and customer meet for the purpose of service production and consumption. Moments of truth will be influenced by physical and mental state of the employee as well as the consumer. The factors that influence the condition of the employee include personal needs, self-image, lifestyle, and ability to perform the service, willingness to perform the service, situational pressures, and mood and health condition. On the other hand, the condition of the service customer will be influenced by personal needs, self-image, lifestyle, ability to participate, willingness to participate, situational pressures, mood, previous experience, word-of-mouth communication and health condition. The interaction between the two under various influencing variables should yield good results for the organisation. The customers are not controllable and can only be influenced. As such, only the factors on the employee's side can be regulated. The employee can be made fit for interaction. Therefore, an employee must be motivated and trained to adapt to the customer's conditions and influence customers to participate well in service encounter. The employee's role in making the moments of truth qualitative is vital. Employees need to be given freedom to participate and design new ways of interactions that delight consumers.

Let us consider three situations:

> **Situation 1:** A consumer enters a service outlet and is unable to identify the right person to contact. The service personnel are basically engaged in their work and none of them recognizes the customer's presence. The customer finally contacts a person and enquires about the right person. The service employee guides him properly and the customer is able to get the work done and leaves the office with a feeling of relief.

> **Situation 2:** A consumer enters the service outlet and is unable to identify the right person to contact. One employee of the service outlet greets him with a smile and enquires about the work. The employee guides him to the right person, maintaining all courtesies. The customer contacts the right person and gets the work done. He leaves the office happily.

> **Situation 3:** A consumer enters the service outlet and is unable to identify the right person to contact. An employee of the service outlet establishes eye contact immediately, greets him with a smile and offers him a seat. He enquires about the customer's problem, tries to show empathy, and reconfirms his understanding of the problem and starts performing the service by contacting the other personnel either over the phone or through the internet. He contacts other employees quickly and completes the service. The employee thanks the customer for availing the service. The customer leaves the office delighted.

Turning the interactive movements from situation 1 to situation 3 does not require any extra investment but the improvement of quality is substantial. The opportunities for improvement in buyer-seller interactions are infinite. Service

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companies should continuously explore opportunities and strive for improvement of the moments of truth.

Phil Weaxler classified the moments of truth into two categories:

➢ Magic moments
➢ Misery moments

A moment of magic means that the employee performs a moment of truth with quality service and the customer feels that he has received more than what is expected. **The misery moments** are quite opposite to the magic moments. The customer feels ill-treated. Excellence in the interactive process occurs only when moments of magic become a way of life for the service organisations. By making every employee familiar with the moments of truth in their jobs, organisations can motivate them to make every moment a magic moment. These may include how to answer a phone, how promptly action is taken, neatness of the visitors lounge, appearance of employees, use of signs, company stationary, that employees say to one another, how employees work together and so on. It will contribute significantly to customer perceived quality.

Research has shown that nearly 60 per cent of the customers are dissatisfied more by the discourtesy or lack of proper attention they experience rather than any defect in the goods or services they buy. A smile, a nice word goes a long way to make a customer happy.

The service organisation might have already committed a mistake. When an aggrieved customer interacts with a contact employee, the contact employee should know what kind of recovery strategies to be adopted. At times, the employees should be capable of taking decisions on their own, depending upon the requirement of the situation.

2.7   PHYSICAL EVIDENCE

Physical evidence is the environment in which the service is delivered and any tangible goods that facilitate the performance and communication of the service. Customers look for clues to the likely quality of a service also by inspecting the tangible evidence. For example, brochures, letterhead, business cards, report format, signage, equipment, prospective customers may look to the design of learning materials, the appearance of facilities, staff, etc.

Physical evidence or appearance is an important element of service marketing mix. Since services lack tangibility the consumers require evidence to prove that they exist in the same form as being claimed by the service provider. Some services are product based and service providers will focus on ensuring that any accompanying goods, which form part of the service, are of appropriate quality and standard. Services, which are highly intangible like consultancy and financial advice, are more difficult for the consumer to assess. In the absence of any tangible products, consumers will look for other ways of evaluating the service. In these context physical evidences like the tangible aspects of the service, the physical surroundings, location, decor and layout of the organisation help the service firms for marketing the services efficiently.

A piece of service evidence is a physical object accompanying a service that cannot be categorised as true product elements. For example, for a bank, its computers, ATMs, personnel, Ledgers will form some of the pieces of evidence that will be used by its customers to evaluate the services expected from the bank by its customers. Service evidence plays a critical role in verifying either the existence or the completion of a service. The perception of customers with regard to physical evidence includes two main types: essential evidence and peripheral evidence.

(i) *Essential evidence* is integral to the service offering and includes the tangible aspects or benefits. Thus a computer in a bank or a teacher in a management institute is essential evidence of these service providers. This type of evidence will not normally be exchanged or owned by the customer. In all cases, the quality and standard of the essential evidence will be a major influence in the customer's purchase decision.

(ii) *Peripheral evidence*, unlike essential evidence, can be given away or exchanged during service transactions. Thus a bank passbook in a bank or course material in an academic institution is peripheral evidence of the service providers. Peripheral evidence plays an emotional role in consumer evaluation of a service before, during and after purchase.

Both these types of evidence combined with the organisation are other marketing mix elements, especially promotion and people, to create an impression on customers and potential customers. Physical evidence will help potential customers to evaluate the service offering and its quality and standard. Their impression of quality will always be subjective and based on their individual perception of the physical evidence and other elements of the service offering Therefore, service marketers are expected to search, identify and innovates various configurations of service evidence. These configurations include a dynamic location, physical infrastructure, corporate image and identity, motivated and trained service personnel etc.

2.8 NATURE AND IMPORTANCE SERVICES CAPE

2.8.1 NATURE OF SERVICES CAPE

Physical evidence is the environment in which the service is delivered and where the firm and the customer interact, and any tangible commodities that facilitate performance or communication of the service. Physical evidence is important for communicating about credence services. Think of the impressions a theme part may leave on its customers using brightly colloured displays, the music, the fantastic rides and the costumed characters – they all reinforce the feelings of excitement and fun.

Physical evidence is important because the services are intangible. They help to tangible and intangible service as customers go by tangible cues, to evaluate the service before its purchase and to assess their satisfaction with the service during and after consumption. The elements and examples of physical evidence are as follows:

ELEMENTS OF PHYSICAL EVIDENCE

Services cape	Other tangibles
Facility exterior: • Exterior design • Signage • Parking • Landscape • Surrounding environment **Facility interior:** • Interior design • Equipment • Signage • Layout • Air quality/temperature	• Business cards • Stationery • Billing statements • Reports • Employee dress • Uniforms • Brochures • Web pages • Virtual services cape
Airline: • Airline gate area • Airplane exterior • Airplane interior (decor) **Music concert:** • Seating • Stadium exterior • Ticketing area • Audience zones	**Airline:** • Tickets • Food • Uniforms • Website **Music concert:** • Signs • Tickets • Program

A classification of service firms can be arrived based on variations in form (elaborate/lean) and use (self-service, interpersonal service, remote service) of the services cape. Some service environments are very simple, with few elements, few spaces and few pieces of equipment. Such environments are termed lean. Examples include ATM and information kiosks. Other services capes are very complicated, with many elements and many forms. They are termed elaborate environments. Examples include hospitals and insurance companies.

2.8.2 IMPORTANCE OF SERVICES CAPE

The services cape plays many roles which help the service firms overcome some of the limitations brought in by the characteristics of the services themselves. For example, similar to a tangible product's package, the services cape (along with other elements of physical evidence) wrap the service to create an image of what is inside. The services cape is the outward appearance of a service firm and thus can be critical in forming initial impressions or setting up

customer expectations. For example, a coffee shop's exteriors, signage and frontage can convey an up-scale image to the customers.

A well-designed, functional facility can make the service a pleasure to experience from the customer's point of view and a pleasure to perform from the employee's. On the other hand, poor and inefficient design may frustrate both customers and employees. For example, a coffee shop with a spacious layout, prominent and well lit interior sign ages will make the customers feel comfortable.

The design of the services cape aids in the socialization of both employees and customers in the sense that it helps to convey expected role, behaviour's and relationships. For example, more and more coffee shops are adopting a living room style of seating with comfortable lounge chairs and tables set to encourage interaction and staying longer.

The design of the physical facility can differentiate a firm from its competitors and appeal to the market segment the service is intended for. For example, in coffee shops, the signage, colours used in décor and displays and type of music played appeal to the intended market segment. Thus the services cape plays the role of package, facilitator, socializer and differentiator.

2.8.3 SERVICES CAPE EFFECT ON CONSUMER BEHAVIOUR

A basic model of consumer behaviour follows the basic stimulus-organism-response theory. Services cape as a stimulus evokes certain responses from the people (employees and customers) in its vicinity. For example, it may cause an approach (say, desire to stay) or avoidance (say, a desire not to stay) behaviour in an individual. Apart from influencing individual behaviour, the services cape influences the nature and quality of customer and employee interactions, most directly in interpersonal services. Services cape as a stimulus, may not only cause a particular behaviour, but also produce internal responses. Employees and customers respond to dimensions of their physical surroundings cognitively (e.g. perceptions), emotionally (e.g. excitement) and physiologically (e.g. physical comfort/discomfort). A services cape can be thought of as a form of non-verbal communication imparting meaning through the physical elements in the services cape. Environmental dimensions of the physical surroundings can include all of the objective physical factors that can be controlled by the firm to enhance (or constrain) employee and customer actions. These factors can be categorized into three dimensions, namely, ambient conditions (such as temperature, lighting, noise, scent and colour), spatial layout (arrangement of machinery, equipment and furnishings) and functionality (ability of the items in spatial layout to facilitate the accomplishment of customer and employee goals) and signs (as labels, for directional purposes and to communicate rules of behaviour), symbols and artifacts. Signs, symbols and artifacts are particularly important in forming first impressions and for communicating new service concepts. When customers are unfamiliar with a service firm, they will rely on the above discussed environmental cues to help them judge the place and form their expectations.

2.9 PROCESS SERVICE: AS A PROCESS, AS A SYSTEM

Process in services refers to the actual procedures, mechanisms, and flow of activities by which the service is delivered- the service delivery and operating systems. In a service organisation, the system by which customer receives delivery of the service constitutes the process. In fast food outlets the process comprises buying the coupons at one counter and picking up the food against that at another counter. The process of a delivery function which can be compared with that of operations management implies the conversion of input into the finished product. But, in a service organisation, there is no clear cut input or output. Rather, it is the process of adding value or utility to system inputs to create outputs which are useful for the customers.

2.9.1 PROCESS SERVICE: AS A PROCESS

Service process means the way in which services are created and delivered. Services are not purchased and owned in the same way as physical goods. A service is created or performed rather than physically handed over. The performance process involves interaction between service provider and customers. Therefore, the service process is an integral part of service offering and also the consumer satisfaction. It is only recently that the importance of service delivery process has been recognised and developed as a marketing tool in service industry.

Developments in technology have also helped to revolutionalise many processes in the service sector. The principles by which service delivery process can be designed and implemented are really not different from those applied in the field of manufacturing.

There are four objectives of setting down clear outlines or blueprints for service delivery processes. These are:

1. To ensure that the service is carried out in the fastest, most efficient and cost effective manner possible,

2. To enable service quality to be monitored and benchmarks to be put in place thus allowing accurate measurement of both quality and productivity.

3. To facilitate staff training and enable individuals to carry responsibility for individual stages of the service transaction and delivery.

4. To reduce the amount of divergence thus enabling accurate budgeting and manpower planning etc. to take place.

5. To ensure that marketing happens at all levels from the marketing department to where the service is provided

6. To consider introducing flexibility in providing the service; when feasible customize the service to the needs of customers

7. To recruit high quality staff treat them well and communicate clearly to them: their attitudes and behavior are the key to service quality and differentiations

8. To attempt to market to existing customers to increase their use of the service, or to take up new service products

9. To set up a quick response facility to customer problems and complaints

10. To employ new technology to provide better services at lower costs

11. To use branding to clearly differentiate service offering from the competition in the minds of target customers

While designing a service delivery process the following factors are to be considered:

➢ The extent of customer involvement or participation in the service process.

➢ The location of the service points i.e., whether the services are delivered at the service provider's premises or at the place of customers.

➢ The nature of the service itself i.e., its intangibility, perishability etc.

➢ The degree of standardisation i.e., whether services are delivered in a standard format or whether customisation is done for services.

➢ The complexity of the service as measured by the number steps or activities in the service delivery process.

The pace of technological developments in recent years has had a major impact on service delivery processes and practices. Service providers and customers have now online information and access to services like banking, stock broking, airline-ticket booking etc. Many organisations have been using technology to improve service efficiency and reach of services. Some new services have also developed directly out of developments in technology such as mobile communication, internet- trading and e-commerce.

2.9.2 PROCESS SERVICE: AS A SYSTEM

A service system (or customer service system, CSS) is a configuration of technology and organizational networks designed to deliver services that satisfy the needs, wants, or aspirations of customers. "Service system" is a term used in the service management, service operations, services marketing, service engineering, and service design literature. While the term frequently appears, it is rarely defined.

One definition of a service system is a value coproduction configuration of people, technology, internal and external service systems connected via value propositions, and shared information (language, laws, measures, etc.). The smallest service system is a single person and the largest service system is the world economy. The external service system of the global economy is considered to be ecosystem services. Service systems can be characterized by the value that results from interaction between service systems, whether the interactions are

between people, businesses, or nations. Most service system interactions aspire to be win-win, non-coercive, and non-intrusive. However, some service systems may perform coercive service activities. For example, agents of the state may use coercion in accordance with laws of the land.

Service systems range from an individual person equipped with tools of the trade (e.g., architect, entrepreneur) to a portion of a government agency or business (e.g., branch office of a post office or bank) to complete multinational corporations and their information systems (e.g., Domino's Pizza, Federal Express). Hospitals, universities, cities, and national governments are designed service systems. The language, norms, attitudes, and beliefs of the people that make up a service system may evolve over time, as people adjust to new circumstances. In this sense, service systems are a type of complex system that is partially designed and partially evolving. Service systems are designed to deliver or provision services, but they often consume services as well.

Every service system is both a service provider and a customer of multiple types of services. Because service systems are designed both in how they provision and consume services, services systems are often linked into a complex service value chain or value network where each link is a value proposition. Service systems may be nested inside of service systems (e.g., staff and operating room unit inside a hospital that is part of a nationwide healthcare provider network).

Service system designers or architects often seek to exploit an economic complementarity or network effect to rapidly grow and scale up the service. For example, credit cards usage is part of a service system in which the more people and businesses that use and accept the credit cards, the more value the credit cards have to the provider and all stakeholders in the service system. Service system innovation often requires integrating technology innovation, business model (or value proposition) innovation, social-organizational innovation, and demand (new customer wants, needs, aspirations) innovation.

For example, a national service system may be designed with policies that enable more citizens (the customers of the nation) to become an entrepreneur, and thereby create more innovation and wealth for the nation. Service systems may include payment mechanisms for selecting a level of service to be provided (upfront or one-time payment) or payment based on downstream value sharing or taxation derived from customers who received the benefit of the service (downstream or ongoing payment). Payments may also be in the form of credit (creative arts) or other types of intangible value (see anthropological theories of value and theory of value).

2.10 DIFFERENT ASPECTS AND MANAGERIAL CHALLENGES

2.10.1 DIFFERENT ASPECTS OF SERVICE INDUSTRIES

The following is an incomplete list of **service industries**, grouped into rough sectors. Parenthetical notations indicate how specific occupations and

organizations can be regarded as service industries to the extent they provide an intangible service, as opposed to a tangible good.

1. **Business Functions** (that apply to all organizations in general): Consulting, Customer service and Human resources administrators (providing services like ensuring that employees are paid accurately)

2. **Child Care**

3. **Cleaning, Repair and Maintenance Services:** Janitors (who provide cleaning services), Gardeners and Mechanics

4. **Construction:** Carpentry, Electricians (offering the service of making wiring work properly) and Plumbing

5. **Death Care:** Coroners (who provide the service of identifying corpses and determining time and cause of death) and Funeral homes (who prepare corpses for public display, cremation or burial)

6. **Dispute Resolution and Prevention Services:** Arbitration, Courts of law (who perform the service of dispute resolution backed by the power of the state), Diplomacy, Incarceration (provides the service of keeping criminals out of society), Law enforcement (provides the service of identifying and apprehending criminals), Lawyers (who perform the services of advocacy and decision making in many dispute resolution and prevention processes), Mediation, Military (performs the service of protecting states in disputes with other states) and Negotiation (not really a service unless someone is negotiating on behalf of another)

7. **Education** (institutions offering the services of teaching and access to information): Library, Museum and School

8. **Entertainment** (when provided live or within a highly specialized facility): Gambling, Movie Theatres (providing the service of showing a movie on a big screen), Performing Arts Productions, Sexual Services (where legal), Sports and Television

9. **Fabric Care:** Dry Cleaning and Laundromat (offering the service of automated fabric cleaning)

10. **Financial Services:** Accounting, Banks and building societies (offering lending services and safekeeping of money and valuables), Real estate, Stock brokerages and Tax return preparation

11. **Foodservice Industry**

12. **Hairdressing**

13. **Health Care** (all health care professions provide services)

14. **Information Services:** Data processing, Database services, Language interpretation and Language translation

15. **Risk Management:** Insurance and Security

16. **Social Services:** Social Work

17. **Transport:** Service Car Rental

18. **Utilities:** Electric power, Natural gas, Telecommunications, Waste management and Water industry

2.10.2 MANAGERIAL CHALLENGES OF SERVICE INDUSTRIES

In a world where every business is looking to cut costs, increase efficiency and move ahead of competition, field service management becomes critical as it plays an important role in customer satisfaction and loyalty. Field service management however have its own unique challenges as its operations are spread across vast territories and resources are distributed in different locations. Moreover, managing a team of professionals who work on the field has its own challenges. While field technicians need the detailed log of the work to be done, the supervisors must ensure that the professionals are on the right track. Such a task comes up with a lot of responsibilities and some additional challenges for the managers. Let us look at some of the critical challenges faced by field services managers.

Challenge 1: Customer demand and high expectation: The customer's relationship with an organization has dramatically changed over the last decade. Now, customers expect their relationship to extend beyond the initial sale. Even beyond the traditional break-fix model. In fact customers today, want a certain level of preventive service. This clearly shows the standards of service that is expected to be delivered. To add to this lays the fact that delivering superior field service is one of the key factors ensuring customer loyalty which in turn ensure continuous revenue. Therefore, field service managers are under tremendous pressure to get it right all the time. This is almost impossible without the right technology at hand.

Challenge 2: Service delivery optimization: Assigning work orders to the appropriate field technicians and engineers are a day to day challenge faced by field service managers. Getting the right person with the right skills is not enough. They are also required to be at the right place at the right time and with the right inventory and tools. If mismanaged, it can lead to increased costs and lesser productivity with more time being spent on the road as against fulfilling service orders.

Challenge 3: Real-time communication and resource location: List of work requests are ever mounting, it is vital for managers to know where their field service personnel are located and what their availability is at any given time. By knowing the location of the field personnel, managers can better gauge how they can prioritize and complete the work. They can also make decisions on whether to bring in contract assistance to supplement the workload

Challenge 4: Rising cost of operations: One of the biggest challenges for field service managers is to manage the cost in an environment where operating costs are frequently increasing. Factors such as time taken to check inventory or find parts, travel expenses, and the need for the appropriate skills can add to the expenses. Missing inventory and inaccurate data add to this human error and you'll find costs soaring very quickly.

The Right Solution

In an industry where there is a very thin line between a satisfied and an unsatisfied customer, it is imminent that these challenges need to be overcome on a daily basis. Several areas of these challenges can be solved with "Field Service Automation" on a mobile device. The workflow can be streamlined by automatically assigning resources based on their location, availability, competency and job priority.

Enabling field service managers with mobility brings in the "anywhere anytime" capabilities along with real-time communications. Together it can help reduce travel time, quickly detect location & readiness of resources, and advise on the right skill set for the job. Thus, with the right automation tools and systems in place, field service managers can overcome stiff challenges and keep expenses under control.

2.11 SUMMARY

Marketing mix of any firm is a mix of strategic decisions around important aspects of marketing process which speaks aloud about the direction and character of marketing effort of that firm in a competitive scenario. Since services have distinct attributes than that of the tangible products, its marketing effort should also be different. The marketing of services are governed by additional 3 P's i.e. people, physical evidence and processes over conventional 4 P's (Product, Price , Place and Promotion). The service marketers have to adopt the concept of an expanded marketing mix for services because of the specific nature of services i.e., intangibility, heterogeneity, inseparability and perish-ability.

The person stands for the employees that are the manufacturer of the services as well as the customers. The importance of customers in services stems from the fact that most services imply active and involved customer-organisation interface which has a bearing on the quality of service. The service employees have a key role in the quality of a service and ensuring customer satisfaction even though customers do influence the production and delivery process of a service. The service organisation must therefore train its employees and set operations standards to maintain its service quality.

The service encounter is defined as all activities involved in the service delivery process and the term "moment of truth" is used to indicate that defining point in a specific service encounter where interactions are most intense. Phil Weaxler has classified the moments of truth into two categories,i.e. Magic moments and Misery moments depending upon the what the customer feels about the quality of service in comparison to what he was expecting.

Since the services are intangible the customers look for tangible objects associated with the service production and delivery to identify and personalise the quality of service these cues of tangible nature are called the Physical evidence. The Physical evidence is all about the environment in which the service is delivered and any tangible goods that facilitate the performance and communication of the service.

Service process means the way in which services are created and delivered. The delivery of services does not lead to transfer of ownership of goods because it is intangible. Services are not purchased and owned in the same way as physical goods. It can't be stored; it is produced only during the encounter with the customer as the performance process involves interaction between service provider and customers. Therefore, the service process is an integral part of service offering and also the consumer satisfaction.

Highly demanding Customer, Assigning work orders to the appropriate field technicians and engineers at the right time and with the right inventory and tools as day to day challenge, Real-time communication and resource location as per the list of work requests and rising cost of operations are some of the critical challenges faced by field services managers. Marketer therefore, has to carefully choose a best fitting plan around all the 7 P's of the services to make their business a success.

2.12 SELF-ASSESSMENT QUESTIONS

1. What do you think are the main reasons for including the element of 'People' in the marketing mix for services?

2. Discuss the nature and importance services cape.

3. Do you think 'physical evidence' really matters in marketing of services? Explain.

4. In the above organizations identify the various physical evidences and suggest ways to improve upon them.

5. What are the key roles of service employees in a service business?

6. What do you understand concept of service encounter? Describe the moment of truth.

7. Explain the processes as one of the important element of marketing mix with suitable examples.

8. What are the steps involved in delivering the service to the consumer?

9. Can we introduce automation to speed up the delivery process?

10. What do you understand by process service? Explain process service as a process and as a system.

11. What are the different aspects and managerial challenges of service industry? Explain it.

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UNIT-03 STRATEGIES FOR MANAGING INCONSISTENCY

UNIT FRAMEWORK

3.1   OBJECTIVES

After completing this unit you will be able to:

- ➢   to explain the managing inconsistency

- ➢   to elaborate the different strategies for managing inconsistency

- ➢   to know the roles in services

- ➢   to examine the employee: roles in services

- ➢   to discuss the customer: roles in services.

3.2   INTRODUCTION

As a marketer of a service, one must consider some strategies to make ones business soar. First of all, the marketer of service must make sure that he knows how to project his services to the target segment and associate it with some readily referenceable visible cues. But, we have learnt that services are intangible and therefore bundling a service as a standardised, streamlined, consistent product is a bit difficult task. Also, there are cases where standardisation of services is not desirable, such as when hiring an interior designer because many customers strive for a personalized experience.

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Just as a careful analysis of the nature of the offering is helpful for the marketer in knowing the degree of standardisation required in his product, the marketer of the services must also workout the role of the customer and the employees cautiously because customer - employee interaction finally determines the quality of the product delivered and satisfaction derived by the customer. While the employees are specialists musicians, the customer is the director in an orchestra understanding of the above facts would help the marketers of the services in laying out better strategies and beat the competition.

3.3   MANAGING INCONSISTENCY

When different aspects of your marketing messages don't reinforce each other, the inconsistencies alienate consumers and customers. Inconsistent marketing distorts clear expectations, makes potential customers unsure of the characteristics of your products and creates unhappy customers who don't get what they expect. The inconsistencies affect businesses by reducing both initial sales to consumers and repeat sales from unsatisfied customers.

1.   **Products:** Promoting your products to your target markets is the heart of your marketing efforts. Your market studies indicate what a particular target market values, and you promote the corresponding characteristics of your products to that market. But your product has to have the characteristics you promote. If you advertise a low price and the actual price is higher than that of competitors, you are wasting the time of potential customers, while possibly annoying them. If you promote your product as being rugged but it is actually delicate, consumers who buy it and break it will not buy another one. In either case, the inconsistencies affect your company through lost sales and a deteriorating image.

2.   **Brand:** Branding lets you create a clear image for your products, services and company. The purpose of a brand is to foster an emotional link between the consumer and the company. Inconsistencies in the image weaken the brand. Brand strategies emphasize certain product characteristics and associate corresponding logos, advertising styles, pricing and company practices. When these aspects suffer from inconsistent marketing, the consumer becomes unsure of what the brand represents and fails to develop or maintain the emotional attachment that is a key to a brand's success.

3.   **Service:** Whether you sell services or support product sales with fulfillment and customer service operations, the level of service you promise in your marketing has to be consistent with your actual service levels. A customer who is promised service with a 10-minute wait will be unhappy if he has to wait half an hour. If you advertise next-day delivery, a customer who has to wait a week for his order will be dissatisfied. A consistent approach, where you tell customers that your wait time is half an hour and delivery takes a week, results in satisfied customers, because you meet their expectations.

4. **Relationship:** A consistent approach, with marketing raising realistic expectations and your company meeting them, builds confidence and is the basis for lasting relationships with your customers. Such relationships are built on positive customer experiences and trust that a company will do what it promises and that its products and services correspond with its marketing. Inconsistent marketing erodes this trust and affects your company by hurting long-term relationships. Since acquiring new customers is more expensive than keeping existing ones, inconsistent marketing increases your costs and affects profitability.

How to be more consistent when delivering your service:

➢ **Look out for signs of tiredness** – Don't wait for complaints. If you see an employee is tired, then step in. This is particularly relevant in a restaurant, hotel or service based business.

➢ **Customer care training** – It is essential to do regularly and not just at the induction of an employee. Make sure that all staff is trained on the lifetime value of a customer and to meet and exceed expectations. Do refresher courses every month or quarter. Undertake mystery shopper assessments so that weaknesses can be identified and improved upon.

A marketing program is made up of the various elements of the marketing mix and the relationships among them. The concept of the marketing mix emphasizes the fit of the various pieces and the quality and size of their interactions. There are three degrees of interaction consistency, integration and leverage. Consistency is the lack of a poor fit between two or more elements of the marketing mix. For example, to sell a high quality service through a low quality services cape (ambience or the physical surrounding) would seem inconsistent. While consistency is the lack of a poor fit, integration is the presence of a positive, harmonious interaction among the elements of the mix. For example, heavy advertising can sometimes be harmonious with a high price, because the added margin from the high price pays for the advertising and the high advertising creates the brand differentiation that justifies the high price. Leverage is the situation in which each individual element of the mix is used to the best advantage in support of the total mix.

3.4 STRATEGIES

Services are highly inconsistent in nature. Due to this characteristic, marketers face the problem of standardizing their services. The strategies used to reduce inconsistency are: (Taken as an example of hotel services.)

➢ Hard technology– it means substituting machinery for people. Mc Donald's has been able to provide consistent service by using this industrialization concept. In fact, Mc Donald's is built on the foundation of consistency. Mr. Ray Kroc insisted that a great brand is one that commands trust because it eliminates uncertainty from the consumer's life. Mc Donald's has every little detail of its operations laid down- from how to set up a unit to the quality of the ketchup 9 to be squeezed from a pre calibrated dispenser.

- ➤ Soft technology– it is a way to industrialize services by substituting preplanned systems for individual services, Oberoi hotels and resorts have standardized their service by using soft technology in the form of pre-packaged offers.

- ➤ Hybrid technology – is a technology for industrializing service by combining both hard and soft technology.

- ➤ Establish set rules and procedures routine the use of pre-planned systems with a specific setoff rules and routines can be used to manage performance effectively in service delivery. A limited menu restaurant like pizza hut ensures high consistency from one visit to the next because they have standardized preparation procedures.

To manage four 'I's of characteristics efficiently the service provider has to use the optimum strategies. "The Problems and Strategies in Services Marketing" adapted from Parasuraman, Berry and Zeithmal, "Problems and Strategies in Services Marketing", and "Journal of Marketing" are described for ready reference.

Problem:

1. **Intangibility:**

   i. Cannot be easily displayed

   ii. Cannot be patented

2. **Inconsistency:**

   i. Standardisation hard to achieve

   ii. Hard to set up quality control

   iii. Can only predict quality or determine it after the service is performed

3. **Inseparability:**

   i. Harder to mass produce

   ii. Less efficient than production goods

4. **Inventory:**

   Customers must be present

Marketing Strategy:

1. **Intangibility:**

   i. Provide tangible clues

   ii. Stimulate word of mouth

   iii. Use personnel sources

   iv. Use post purchase communication

2. Inconsistency:

    i.   Stress on standardisation and performance

    ii.   Focus on employee training

    iii. Programs, performance evaluation

    iv. Licensing and other forms of credential requirement

3. Inseparability:

    i.   Need strong training programmes, incentives

    ii.   Focus on personal attention

4. Inventory:

    i.   Focus on convenience, saving time, faster service

    ii.   Extended hours

    iii. Focus on competence and expertise

    iv. Predict fluctuating demand

    v.   Manage capacity to balance supply and demand

Effective Service Marketing Strategies

There are many different ways to market services. These may include referral programs, live demonstrations, social media advertising, bonuses, special offers and more. Referral programs, for example, reward customers who refer a new individual to a company. Your audience is more likely to recommend your service if you provide something in return, such as free upgrades or exclusive discounts.

Don't forget about social media, which is an integral part of consumers' lives. By posting content, images and videos that raise awareness and answer questions about a service on social networks, you'll reach more prospects and keep your customers engaged.

Demonstrations and training sessions are beneficial too. Consumers are more likely to subscribe to a service when they understand the role it can play in their lives and see it in action. Seminars, live demonstrations, workshops and content marketing are all ways service providers can achieve this goal and reach prospective buyers.

Marketing services is different than marketing products. Even though both have the same purpose, they exhibit distinctive traits and require a different approach. Unlike physical products, services cannot be returned or stocked. Plus, they require a higher level of personalization. Human interaction is essential at every step of the process. If you want to have success, adjust your marketing efforts accordingly.

3.5 ROLES IN SERVICES

As a service marketer, there are a few things to consider if you want to make your business thrive. First of all, make sure you know how to standardize your services and demonstrate this standardization. With services, it can be more difficult to provide a streamlined, consistent product than it is with tangible goods. On the other hand, not all services should be standardized. Many customers strive for a personalized experience, such as when hiring an interior designer.

Also, focus on building a lasting relationship with your clients so they return and promote your services. Personalization can go a long way toward customer loyalty. Ensure effective communication at all the service's touch points. These are the points of interaction between the service provider and the consumer, such as their first meeting and immediately after the consumer purchase the service. These can include postcards, emails and interactions with sales representatives. Try to set your service apart from competitors' services in the same niche. Develop a unique selling proposition that appeals to your customers' needs and wants. Keep up with the latest industry trends and provide innovative solutions. This will help you stand out from the crowd and give customers one more reason to choose your brand.

SCOPE OF SERVICE MARKETING:

The scope of services can be interpreted from the viewpoint of various areas or branches of the services sector. Each sub-sector has its own scope with reference to its importance and functions. The following are the various areas of services sector:

Insurance: It helps to minimize ricks. Business is subject to risks. Certain risks can be insured such as loss by fire, loss by theft, etc. There are various types of insurance such as life insurance, fire insurance, marine insurance, accident insurance, and so on. Businessmen and others can insure against insurable risks.

Transport: It solves the problem of place difficulty. In business, there is a place gap from the place of production to the place of consumption. Goods produced in one part of the country or globe may be required for consumption in other parts of the country or globe. Thus, transport services are utilized for bridging the place gap. There are several modes of transport such as road, rail, water, and air.

Warehousing: It creates time utility. Nowadays, production of goods is undertaken in anticipation of demand. Goods are not consumed immediately after production. Thus, goods need to be stored in warehouses, till they are demanded in the market. Due to warehousing, goods can be produced in large scale, and seasonal goods are made available throughout the year.

Banking: Banks play an important role in financial markets. The primary functions of the bank include obtaining deposits, and lending money. Banks perform agency functions on behalf of its customers such as collection of funds on behalf of the clients and make payment to third parties on behalf of its customers. Banks also perform utility functions such as provision of debit cards, credit cards, locker facility, etc.

Retail Trade: Retail industry contributes 10% of India's GDP. Currently, retail trade sector occupies the second position in India's GDP after agriculture. The Indian retail market is estimated to be US$ 500 billion in 2012and is projected to reach US $ 1.3 trillion by the year 2020. India is one of the top five retail markets in the world by economic value. India's retailing industry mostly consists of the local mom and pop stores, owner manned shops and street vendors. Organised retail supermarkets are growing but small, with a market share of 4% as of 2008. In Sept 2012 government permitted 51% FDI in multi brand retail and 100% FDI in single brand retail.

Communication: It facilitates transfer of exchange of information. Communication facilitates enquiries for goods or services, negotiations of business dealings, placement of orders, obtaining feedback from customers, etc. There are various means of communications – written and oral.

Information Technology Services: The IT services play an important role in the economic development of a country. IT services are used in a wide variety of services such as health care, education, industry, etc. The IT services contribute significantly to the exports of India. Over 40% of the services exports are contributed by IT services.

Hotel Services: India is a famous holiday destination in the world, and provides ample facilities for lodging and boarding. It has state of the art hotels to cater to its ever booming travel and tourism industry. Many hotels and resorts have popped up in India over the last few years to cater the accommodation needs of everybody. India is dotted with hotels that fit in every budget. There are hotels ranging from Luxury Hotels to Economy Hotels.

Tourism: Tourism sector contributes to the economic growth of India. It provides employment, contributes to GDP, and earns valuable foreign exchange. Tourism to India has seen a steady growth, year on year, from less 5 million foreign tourists in 2006 to nearly 7 million arrivals in 2013.The United States is the largest source of international tourists to India, while European Union nations and Japan are other major sources of international tourists. Over 12 million Indian citizens take international trips each year for tourism, while domestic tourism within India adds about 740 million Indian travelers. In 2013, he tourism sector contributed over US # 18 billion in foreign exchange and contributed about 6% of GDP. Govt. of India has allowed 100% FDI to give a big boost to this sector.

3.6 EMPLOYEE: ROLES IN SERVICES

Service employees are required to perform varied roles in a service organisation. Employees who are involved in the service production process are required to perform the following roles effectively.

1. **Product designer:** The Basic Service Package (BSP) formulated by the service organisation serves as a basic input for the contact employee. Each customer may require a different service for solving his specific problems. Service employees should ascertain each customer's specific service requirements and design a distinctive service product by taking into consideration the resources and competencies of the service organisation.

2. **Performer:** A service employee is the performer in the service production process. He has to interact with uncontrollable elements (consumers) and extract quality performance, by influencing the customers to get involved in the process.

3. **Technician:** Some services require the use of equipment and the service employee who possesses the skills to operate such equipment.

4. **Associate:** Service employees and service consumers together produce service. The expected role of an employee is to associate with the consumer and produce quality service.

5. **Friend:** A service employee has to play the role of a friend with consumers as well as co-employees in a team. Co-employees and customers look for help, cooperation, guidance and support from others on various issues. Every employee of the service organisation should respond to such needs positively.

6. **Empathizer:** Empathy is the key quality parameter in service. Consumers feel comfortable and perceive better quality when contact employees are empathetic. Service employees should have the patience and inclination to be empathetic towards customers.

7. **Assurer:** Service employees' words and actions should reflect assurance to customers. As services are intangible, variable and perishable, customers seek assurance in every production process. The consumer contact employees are the representatives of the service company; this is why a contact employee needs to perform the role of an assurer.

8. **Salesman:** The performance of a service employee builds a positive image for the service company. The customers of a service are likely to become consumers of other services offered by the company. Contact employees will have an opportunity to interact closely and intimately with customers. Therefore, their role in influencing and persuading the customers is vital. Service companies can use their contact employees as sales personnel.

9. **Marketing intelligence:** One of the most prominent sources of marketing intelligence is contact employees. They are the right personnel to gather data relating to day-to-day happenings.

Front-line employees and those supporting them from behind the scenes are critical to the success of any service organization because they are the service, they are the organization in the customer's eyes, they are the brand and they are marketers. Customer's perceptions of service quality will be impacted by the customer-centric behaviour's of employees. In fact, all of the five dimensions of service quality (reliability, responsiveness, assurance, empathy and tangibles) can be influenced directly by service employees. Satisfied employees make for satisfied customers. The front-line service employees are referred to as boundary spanners because they operate at the organization's boundary. They serve a critical function in understanding, filtering and interpreting information and resources to and from the organization and its external constituencies. They also exert emotional labour that goes beyond the physical or mental skills needed to

deliver quality service. Friendliness, courtesy, empathy and responsiveness directed toward customers require huge amounts of emotional labour from the front-line employees who should this responsibility for the organization. To build a customer-oriented, service-minded workforce, a service firm must

1. **Hire the Right People**

   ➢ Compete for the best people in the talent market

   ➢ Hire for service competencies and service inclination

   ➢ Be the preferred employer

2. **Develop People to Deliver Service Quality**

   ➢ Train for technical and interactive skills

   ➢ Empower employees

   ➢ Promote teamwork

3. **Provide the Needed Support Systems**

   ➢ Develop service-oriented internal processes

   ➢ Provide supportive technology and equipment

   ➢ Measure internal service quality

4. **Retain the Best People**

   ➢ Include employees in the firm's vision

   ➢ Treat employees as customers

   ➢ Measure and reward strong service performers

3.7 CUSTOMER: ROLES IN SERVICES

Recognition of the role of customers in service delivery is reflected in the definition of the people element of the services marketing mix. The service audience (comprising of the customer receiving the service and other customers in the service environment) contribute to the service outcome through appropriate or inappropriate, effective or ineffective, productive or unproductive behaviour's. Table 3.1 summarizes the levels of customer participation across different services.

In many service contexts, customers receive the service simultaneously with other customers or must wait for their turn while others are being serviced. Either way, the presence of other customer's in the service environment can affect the service delivery process or its outcome. When other customer's exhibit disruptive behaviour's, because delays, overuse, crowd and complain on incompatible needs, it negatively affects the service experience.

Table: 3.1 Levels of customer participation across different services

Low: Consumer presence required during service delivery 1. Products are standardized 2. Service is provided regardless of any individual purchase 3. Payment may be the only required customer input	B2C example: Airline travel	B2B example: Pest control
Moderate: Consumer inputs required for service creation 1. Client inputs customize a standard service 2. Provision of service requires customer purchase 3. Customer inputs (information, materials) are necessary for an adequate outcome, but the service firm provides the service	B2C example: Full-service restaurant	B2B example: Freight transportation
High: Customer co-creates the service product 1. Active client participation guides the customized service 2. Service cannot be created apart from the customer's purchase and active participation 3. Customer inputs are mandatory and they co-create the outcome	B2C example: Personal training	B2B example: Management consulting

Advances in technology have allowed the proliferation of a wide range of self-service technologies (SSTs) that manage the customer participation in service delivery. They bring in a great degree of standardization and consistency to the service experience, at the same time saving others resources (including employees) for the service firm. Popular examples of SSTs include ATMs, Internet banking, Package tracking, e-learning, airline e-ticket, online shopping and auctions.

The level and nature of customer participation in the service process are strategic decisions that can impact a firm's productivity, its competitive positioning, service quality and customer satisfaction. The goal of a customer participation strategy is to increase productivity and customer satisfaction while simultaneously decreasing uncertainty due to unpredictable customer actions. A customer participation strategy may be outlined as follows:

1. **Define Customer's Jobs**

   ➢ Helping oneself

   ➢ Helping others

   ➢ Promoting the brand/firm

2. **Recruit, Educate and Reward Customers**

   ➢ Recruit the right customers

   ➢ Educate and train customers to perform effectively

   ➢ Reward customers for their contributions

   ➢ Avoid negative outcomes of inappropriate customer participation

3. **Manage the Customer Mix**

   ➢ Appropriate market segmentation

   ➢ Compatibility management

3.8   SUMMARY

Marketing services is different from the marketing of tangible products. They exhibit distinctive traits and require a different approach. Unlike physical products, services are invisible and cannot be returned or stocked. Also, men and processes cannot be separable in the production and delivery of services. Human interaction is essential at every step of the process.

Un-standardized offerings or Inconsistency in services can be counterproductive. Inconsistent marketing creates unhappy customers as it tend to distort their expectations and makes them uncertain of the characteristics of what they will be getting. The level of service that is promised in marketing has to be consistent with your actual service levels. Inconsistent marketing erodes trust and affects company by hurting long-term relationships. Since acquiring new customers is more expensive than keeping existing ones, inconsistent marketing increases overall costs and affects profitability. Measures such as proper induction, training and attending to the tired employees could be helpful if the managers see any sign of disruption and deviations in the quality of services being offered. Substituting machinery for people or by substituting preplanned systems (pre-package systems) for individual services or a combination of these could prove to be good strategy to reduce inconsistency in services.

Services are produced and delivered in the presence of the customer. Since customer employee interactions are imperative in the production of services, both the employee and the customer has a role in the quality of services. This participation of customers is helpful but difficult to manage particularly at the peak time. Now a days, Advances in technology have allowed the proliferation of a wide range of self-service technologies (SSTs) that manage the customer participation in service delivery. They bring in a great degree of standardization and consistency to the service experience, at the same time saving others resources (including employees) for the service firm. Popular examples of SSTs include ATMs, Internet banking, Package tracking, e-learning, airline e-ticket, online shopping and auctions.

3.9 SELF-ASSESSMENT QUESTIONS

1. What do you understand by managing inconsistency of service marketing? Explain it.

2. How to overcome managing inconsistency of service marketing?

3. What are the effective service marketing strategies?

4. Describe the roles in services. Discuss it in the light of marketing of services.

5. What are the scopes of service marketing in India?

6. Explain the employee's roles in services.

7. What a service firm must do to build a customer-oriented, service-minded workforce?

8. Explain the various roles of employees in service performance with suitable examples.

9. Describe the customer's roles in services.

10. What are the levels of customer participation across different services?

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UNIT-04 SEGMENTATION: TARGETING AND POSITIONING OF SERVICES

UNIT FRAMEWORK

4.1   OBJECTIVES

After completing this unit you will be able to:

- ➢ to explain the segmentation of services
- ➢ to elaborate the targeting of services
- ➢ to know the positioning of services
- ➢ to examine the services design and development
- ➢ to discuss the service blueprinting and service process.

4.2   INTRODUCTION

The marketing starts with the understanding of needs and wants of the prospective customers and then to satisfy the needs and wants of those customers by offering them a solution in a profitable way. Reaching out to customers in different markets and serving them is a costly affair. A marketer has to choose a most potential market with appropriate size and reach to serve them better in a profitable way. This is often referred to as targeting a segmented market in marketing language.

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This concept of traditional marketing is valid in marketing of services as well. A marketer has to first identify a group of customers with similar needs and wants this is called segmentation. Once a segment is chosen marketers works out a unique mix of strategy to position and promote his product. however given the differences in attributes of services and marketing of tangible product there are some improvisations in the way the marketing of services in conducted.

4.3 SEGMENTATION OF SERVICES

We will now take up the strategic part of the services marketing area, through a discussion centered on the classic STP (segmentation, target marketing and positioning) aspects of services. The marketing of products also involves these steps, as you would be aware if you had a marketing management course before this one. Our emphasis will be on finding out the reasons for the services tending to be different at times, and we will focus on Indian service examples most of the time.

Imagine that you were an entrepreneur with assured funding from a bank, and wanted to start a new service business. The reason for starting a service business could be your belief that services are more profitable in the long run. How do you go about this task of identifying a new business? Most likely, you would have to begin by deciding whom you want to market your service to. It is possible that some well-defined groups or segments already exist in the business area that you have identified. For example, if you want to start a hotel in Goa, there are two broad segments one can readily imagine-tourists and business travelers. However, these broad units could also be segmented based on other variables. For example, the domestic versus foreign clients, male or female customers, or young and middle-aged and old customers are all valid ways of segmenting your potential clientele.

Some of the commonly used segmentation variables are:

- ➢ **Type:** Institutional or corporate customers/Individuals
- ➢ **Age:** Kinds/Teenagers/Young adults/Middle-aged/Old
- ➢ **Gender:** Male/Female
- ➢ **Medium of Language:** Language Spoken
- ➢ **Income Level:** Rupees per month (less than 5000, 5001-10000, 10001-20000, more than 20000, etc.)
- ➢ **Preferences:** Indoor activities, Outdoor activities
- ➢ **Personality Types:** Introvert, Extrovert or other classifications
- ➢ **Ethnic background/state/region:** Konkani, Bengali, South Indian, Marwari, etc.
- ➢ **Profession:** Salaried, Businessperson, Artist, Lawyer, Doctor, etc.
- ➢ **Attitude towards Risk:** Risk taker, risk averse, etc.
- ➢ **Collection and Compilation of Population** Data: Rural Basis /Urban Basis

Several other variables could also be used to segment the customers or potential customers. But they should be relevant to the service, which we are going to market. The segmentation variables can broadly be classified into four types:

1. **Geographic** – religion, city, density, climate etc.

2. **Demographic** – age, gender, marital status, family size, family cycle, income, purchasing capacity, price preference, education, occupation etc.

3. **Psychographic** – lifestyle, personality etc.

4. **Behavioristic** – buyer behavior, brand loyalty, attitude towards product, awareness status, usage status, purchase occasion etc.

Segmenting Institutional Customers: Many services are sold to institutional customers. The institutional customers can further be segmented using typologies like

1. Volume of purchase (big buyer versus small buyer based on order size in rupees for a given period)

2. Amount of paperwork involved (for example, government orders involve a lot of paperwork)

3. Decision-making type (centralized versus decentralized, one person versus committees)

4. Price sensitive versus Quality sensitive

5. Technically aware versus unaware (for example, some companies have a large maintenance staff on their payroll, who are knowledgeable about the service you provide)

6. Final user versus intermediate buyer (example, contractors who subcontract)

Benefits of market segmentation :-

No one can satisfy all the people all the time, can satisfy some people all the time or all people for some time. This concept is reflected in market segmentation.

1. Facilities proper choice of target market

2. Helps distinguish one customer group from another within a given market

3. Facilitates effective tapping of the market, adapting the offer to the target

4. The 'divide and rule' concept as a strategy of 'dividing the markets for conquering them'.

5. Helps crystalize the needs of the target buyers & elicit more predictable responses from them, helps develop marketing programs on a more predictable base, and helps develop marketing offers that are most suited to each group.

6. Helps specialization required in products/services, distribution, promotion & pricing (marketing mix) for matching the customer group & developing marketing & appeals that match the needs of such a group.

7. Makes marketing effort more efficient and economic – helps identify less satisfied segments and concentrate on them to improve the level of satisfaction.

8. Helps concentrate efforts on the most productive & profitable segments instead of frittering them away over irrelevant, or unproductive, or unprofitable segments.

9. Bring benefits to the customer as well, in various ways.

10. When segmentation attains high sophistication, customers & companies can choose each other & stay together.

4.4 TARGETING OF SERVICES

A service marketer may be tempted to target all available segments, all at once. But usually, this is not a good way to begin. For example, consider an entrepreneur from Udipi, Karnataka, who decides to set up a restaurant serving south Indian food. He has a host of choices of food types that he can serve, but he may settle on south Indian food, because that is a product he knows. Similarly, the geographical segment that he may start with is one location, say Bangalore. He may choose Bangalore because that is where he thinks that a market exists. After doing a survey formally or informally, he may decide on the area close to the railway station as being suitable for his kind of business. Therefore, he stars with a subset of all the possible market and product segments that he could have served.

Just to take the opposite view and see what may be required if he were to serve all possible segments in all possible geographical areas (even if we limit ourselves to just the city of Bangalore), he may have to open 30 restaurants of different kinds in different areas of the city, catering to different types of customers and tastes. This would probably test his resources, hampering many aspects of his control over the business such as hiring, training, quality of service, and so on. It might also require him to take a massive amount of loan, and increase his chances of failure. The point of this example is that it is usually prudent for a service provider to choose one or a few of all possible target segments. He may, after gaining confidence in serving that segment, expand into serving the same type of customers elsewhere, or even try entering different segments by say, adding north Indian food items to his restaurant's existing south Indian menu.

To provide a parallel from the consumer goods field as an illustration, Procter and Gamble, the multinational producer of consumer goods, decided to cut back on its product and market segments in India in the early part of this decade, after an attempt to beat Hindustan Lever in product range and distribution failed. As a general principle, if a marketer of services tries to be everything to everyone, he runs the risk of being a nobody, or rather, nobody's preferred provider. This is not to say that the ambition should be absent, but only that it isles risky to proceed a step at a time. This is because a firm's resources are usually limited, whatever be its size. Another example from the software industry may be useful. Tata Consultancy Services (TCS), India's top IT exporter, took

several decades to grow steadily to the position it enjoys today, in the difficult market for specialized services in an internationally competitive situation. It expanded its reach slowly and grew steadily in line with its corporate objectives and philosophy, choosing to remain a privately held company even though many companies after it used the stock market route for a quicker growth rate. TCS felt comfortable growing the way it did, unlike many others who rose rapidly and fell into oblivion as quickly, partly because they tried too many things at once.

The basis on which marketers target the identified markets:

➢ **Evaluating And Selecting Market Criteria** – once the firm has identified its market segment opportunity it has to decide how many and which one to target.

➢ **Segment size & growth potential:** the size of the different segments in the market should be compared on the basis of their present capacity and their future potential to grow.

➢ **The segments overall attractiveness & profitability** : marketers should analyse several factors like competition – present & future, presence of substitutes – present & future, availability – present & future. Then on the basis of the critical assessment this targeting should be decided.

➢ **The Company's objectives & resources:** companies differ in sizes, styles, resources, specializations, expertise, standings, objectives, etc. the target selection should match the overall objectives & resources philosophy of the company.

TARGETING STRATEGIES – having evaluated different segments the company can consider five patterns of target market selection:

➢ **Single segment concentration (concentration strategy)** – only a single segment is targeted and concentrated effort is given.

➢ **Selective specialization (selective segmentation strategy)** – only a few segments are targeted depending on the company criteria and concentrated effort is given.

➢ **Product/service specialization strategy** – all the available market segments are targeted for a single category of products & services.

➢ **Market specialization strategy** – only a particular market segment is targeted for all the categories of products & services.

➢ **Full market coverage** – all the available market segments are targeted for all the categories of products & services.

COUNTER SEGMENTATION: – The market & its segmentation don't remain static. The difference between the segments may get more insignificant over time and some other segments no longer remain viable. This is a result of several variable factors changing independently or dependently. In such situation clubbing of two or more segments is done to have a common strategy of marketing mix. This is called counter segmentation.

4.5   POSITIONING OF SERVICES

Positioning & differentiation is the third logical step after the market segmentation and market targeting. Positioning is occupying a relative position in the minds of customers with respect to other service providers/competitors. Differentiation is slightly different but very close positioning making the service offered something distinct or with some distinctive advantage from other offerings. Positioning is defined as 'the process of establishing and maintaining a distinctive place in the market for an organization and/or its products services offerings. This is the creating of a distinct place in the minds of a customer, or the perception of a customer.

Once that target segment or market is clear, the service marketer has to position himself appropriately for that segment. Positioning, as is now well understood in marketing, is an integral part of strategy for a new service provider. Even in the case of a mature business, a service marketer needs to reaffirm its positioning in the minds of target customers. At times, a subtle shift in positioning may also be necessary to keep up with the changing consumer preferences or to cope with the challenges from competitors.

Briefly, the positioning is a mental image or picture that a service provider would like to have about it in the consumer's mind. It is a deliberate attempt at building an identity of a certain kind for the service. For example, McDonald's in India has a slightly up market image than in the US, where it is viewed as cheap American fast food. Since a hamburger is an everyday item of American food, it made sense for McDonald's to develop that positioning. In India, that slot is already occupied by a variety of Indian alternatives. For example, the idli-dosa corner food joints in the south, the paratha serving stalls in the north, or the tea and samosa corners of Kolkata. Therefore, the mind space that McDonald's has tried to occupy is of two types. One, the affluent, westernized teenager. Second, the modern upscale family possibly driven by children who enjoy the feeling of eating at a McDonald's. Positioning has a lot to do with the target segment to which we choose to market, and it has elements like price, packaging, communication and ambience, which reinforce the positioning, attempted by the company.

Banks, for example, used to position themselves as austere, dull but safe place, you could trust until recently. Some public sector banks in India have still not changed. However, consumer tastes have changed; competitors in the field have brought in modern views from the advanced countries. Presently, every bank is trying to offer an ambience, which is friendly with smiling young tellers and receptionists, and customer service representatives, not to mention the call centres and free photographs to open bank accounts with. Thus, positioning can also be a function of a time, and a place or a function of what the consumers expect. There are several surveys which show that India's public sector banks are now perceived by consumers to be slow, bureaucratic, technologically backward, but still, safe, whereas the new private sector banks (like ICICI Bank, UTI Bank, HDFC Bank) are perceived as aggressive, technologically advanced, and customer-friendly. Thus, the older banks in the public sector will have to learn image management in order to position themselves appropriately towards the younger generation, in

addition to giving them the functional benefits that they desire.

A news item states that Barista, the coffee shop chain that is now controlled by the Tatas, wants an image (or positioning) change to attract a wider range of customers, by, among other things, making coffee more affordable at its outlets. It found that the upscale image it had built up limited the scope expansion, and found that its assets (chairs, real estate) were underutilized for a large part of the day.

POSITION A SERVICE BUSINESS

There are a variety of ways in which positioning can be arrived at. Some major ways of doing this are discussed below.

1. **Positioning by features:** For example, the largest roller coaster in town: an amusement park. One new ride added every month, for a similar theme park, live music along with a dinner in the restaurant.

2. **Positioning by comparison:** For example, the highest occupancy rates in town for a hotel, the highest percentage of satisfied customers for an airline, or the highest percentage of successful candidates, for a coaching class or educational institution. Business schools frequently use rankings in independent surveys to claim they are in the top 10 or 15 in the country. One business school, Indian Institute of Planning and Management (IIPM), even positions itself against the Indian Institutes of Management (IIMs), with the line Dare to think beyond the IIMs.

3. **Positioning by benefit to consumer:** As in you have a dream of becoming an expert programmer, working for a multinational, going abroad, etc., and we help you to fulfill it, could be the slogans of a computer training institute such as NIIT or SSI. Or, a caterer could position himself as taking the hassles out of cooking and cleaning for a party or a resort could position itself as a get away from the year round hectic pace of life. Airlines such as Indian Airlines offer the largest connections to most Indian towns and cities, and try to use it to position themselves.

4. **Positioning as an expert:** For example, we understand air travel, for an airline, or, the expert on budget tours for a tour operator.

5. **Positioning through guarantees:** Full satisfaction or your money back, or returns with no questions asked, in case of retail stores.

6. **Positioning as a leader:** Number 1 in the furniture retailing business, or leadership with responsiveness, in the banking industry.

7. **Positioning through smart tag lines**, which may implicitly convey some benefit, like the famous line used by Met Life Insurance, USA, which says Get Met. It Pays. (In India, they are currently using the tag line Have you met life today?). This may indicate that it settles claims with less of fuss than competitors. It may also imply other value, though not explicitly specified.

8. **Positioning through emotions** such as fear, love, kinship, concern for the environment, etc. A hotel chain in India calls its properties Ecotels, to indicate the environmental consciousness at various levels. Sahara Airlines, a late entrant into the airline business, positioned itself as Emotionally Yours.

POSITIONING STRATEGIES

According to Michael Porter, there are three basic positioning alternatives, like as a product/service differentiator, as a low cost leader, and as a niche market offered. He suggested that the marketer should be specialist for a few strategies rather than a generalist for several strategies. The strategies can be based on several attributes as:-

1. **Attribute positioning** – based on a single attribute or feature of a service.

2. **Benefit positioning** – based on some benefit the customer derives using a particular service.

3. **Use/Application positioning** - based on some uses or applications.

4. **User positioning** – based on requirements of some specific target groups.

5. **Competitor positioning** – this service is positioned primarily against a particular competitor.

6. **Category positioning** – positioning as a leader of a particular category, so that it becomes synonymous with that service.

7. **Quality/Price positioning** – on the basis of quality standard at a particular price.

4.6 SERVICES DESIGN AND DEVELOPMENT

4.6.1 SERVICES DESIGN

Service product design refers to the design of the physical attributes of the service. The subscription options for home cable television service or the banking transactions that are available through an automatic teller machine are examples of such attributes. These attributes may involve the assembly of raw materials or developing software.

Further the service facility design refers to the design of the physical layout of the facilities. Customers' perceptions of the quality of the service are influenced by attributes such as the cleanliness, spaciousness, lighting and layout of the environment, where the service takes place. In addition to these facilities, other additional facilities such also need to be designed. The efficiency of service operations depends on the configuration of these facilities.

Service operations process design refers to the activities that are needed to deliver or maintain a service. The activities that make up the operations processes are those required for the service to deliver its output. By contrast, the activities comprising the customer service process design pertain to the interactions

between the customer and the service provider. For example, in the car rental example described above, in addition to the operational steps, the representative may greet the customer on arrival, refer to him by name, ask him for his preference of cars, and bid him farewell on departure. The customer service and service operations activities together make up the car rental process. The quality of the service experience depends on the performance of both types of activities. These activities therefore need to be designed together.

STEPS IN SERVICE DESIGN

A real design exercise involves the complex interactions of a variety of technical and non-technical factors that affect the quality of the design. In order to design a product, it is important to employ a methodology that integrates the technical aspects of the design with the marketing and management principles that are required to ensure the commercialization of the product. Such a methodology is referred to as total design.

Step 1:	To involve the customer in designing process.
Step 2:	To determine the specifications of the design from these customers.
Step 3:	To determine the technical aspects of the design from these customer as per the specifications. The technology should be a derivative of the customers need and not the other way around.
Step 4:	To design the service using a multi-function team with.
Step 5:	To test the design in the marketplace, and not in the laboratory. A successful design should not only be one that creatively applies the latest technology, but should also be one that customers like, purchase, and use.

4.6.2   SERVICES DEVELOPMENT

The success of a service organisation depends not only on managing the existing services efficiently but also in developing new services. A dynamic organisation always tries to identify new opportunities and convert them into profitable business propositions: New service development must be a well thought out plan and envisages several processes. In this context it is imperative to describe the different stages mentioned in the development of new services.

1. **Idea generation:** Generation of a creative idea is the beginning of a successful service. It starts with a careful analysis of customer needs and market opportunities. The idea can come from internal sources like staff, organisation's own research and development studies, management's judgment etc. or from external sources like customers, consultants, market demand analysis etc. Marketing research can contribute new ideas or disclose new areas where a firm can enter and exploit the opportunity.

2. **Screening the idea:** Screening is a preliminary investigation of the new service idea. The object of screening the idea is to see whether the idea needs a detailed analysis or it must be dropped altogether. In the screening stage, the organisation has to verify details of the idea such as its attractiveness, the expected size of market, the compatibility of the idea with the organisation's objectives and resources etc. The screening reveals the ideas to be rejected and those feasible ideas to be accepted. These feasible ideas are considered for further analysis and development.

3. **Concept Development and Testing:** A service idea develops into a service concept which is an elaborated version of the idea expressed in meaningful consumer terms. Concept testing calls for gathering the reactions of consumers to the service concept. In product marketing extensive marketing research and consumer surveys are used for product testing. But in services the concept testing is made by discussing the concept with small group of target clients or by small scale surveys of existing and potential clients.

4. **Business Analysis:** Business analysis is an in-depth exploration and evaluation of the service concept. It involves analysis of the key parameters of the service including its market potential and profitability. The analysis focuses on areas like the target market, its size and expected market share, the level of current and future demand, analysis of break-even point and profitability, external market environment affecting performance etc.

5. **Service Development:** At this stage, preparations are made for developing and launching the service. Necessary infrastructure may be developed for rendering the new service like designing and supplying literature, brochures, schedules and other tangible elements of the service. A suitable marketing strategy is also developed at this stage. Sometimes the existing process may be adapted for accommodating the new service or new premises may be added.

6. **Market Testing:** Market testing is the process of introducing the service to a selected number of clients to examine its viability and market performance. It helps to identify the weaknesses of the service including its marketing plan. If the market testing proves to be successful the service can be launched with full-fledged marketing programme.

7. **Commercialization:** In the final stage of a service promotion, the service is launched commercially. The organisation may also adopt suitable marketing strategies for the successful implementation of the marketing programme.

4.7   SERVICE BLUEPRINTING

The 7th P of service marketing mix is process. It refers to the actual procedures, mechanisms and flow of activities by which the service is delivered the service delivery and operating systems. The service process is designed and specified using the service blueprinting tool.

To march service specifications to customer expectations, the characteristics of the critical service process must be described objectively and depicted for the employees, customers and managers alike to know what the service is, what their role in its delivery is and understand all of the steps and flows involved in the service process. Shostack (1984) describes service blueprinting as a tool that addresses the challenges of designing and specifying intangible service processes.

A service blueprint is a picture or map that accurately portrays the service system so that the different people involved in providing it can understand and deal with it objectively regardless of their roles or their individual points of view. It is a tool for simultaneously depicting the service process, the points of customer contact and the evidence of service from the customer's point of view. It provides a way to break a service down into its logical components and to depict the steps or tasks in the process, the means by which the tasks are executed and the evidence of service as the customer experiences it.

The key components of service blueprints are customer actions, front-end contact employee actions, back-end contact employee actions and support processes. The customer actions encompass the steps, choices, activities and interactions that the customer performs in the process of purchasing, consuming and evaluating the service. The front-end contact employee actions are visible to the customer whereas the back-end contact employee actions are invisible. The support processes cover the internal services, steps and interactions that take place to support the contact employees in delivering the service. A line of interaction is drawn to represent direct interactions between the customer and the organization. A line of visibility separates all service activities that are visible to the customer from those that are not visible. A line of internal interaction separates contact employee activities from those of other service support activities and people. One of the most significant differences in service blueprints compared with other types of process flow diagrams is the inclusion of customers and their views of the service process.

BUILDING A BLUEPRINT

Through the process of developing the blueprint, many intermediate goals can be achieved: clarification of the concept, development of a shared service vision, recognition of complexities and intricacies of the service that are not initially apparent and delineation of roles and responsibilities.

Blueprinting is a technique that helps to understand the totality of a service as a process, so that "fail points," those stages of the service that have a high statistical probability of generating problems, can be identified and properly understood. The blueprint is an objective, graphical depiction of the service.

The key steps in preparing the service blueprint as follows:

1. To identify the activities involved in delivering the service and present these in a diagrammatic form. The level of detail will depend on the complexity and nature of the service.

2. To identify the critical points. These are stages where things may go wrong. The corrective measures at this stage must be determined, and

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systems and procedures should be developed to reduce the occurring in the first instance.

3. To set standards against which the performance should be measured.

4. To analyze the profitability of the service delivered, in terms of the number of customers served during a period of time.

On the other hand service maps are to be built up on blueprints and two additional features are to be provided to add to management information.

➤ To pay greater attention to customer interaction with the service organization. Further the clear diagrammatic distinctions should be made between actions of customers and of service contact personnel. In effect, more should be provided on the front stage activities in blueprints.

➤ Additional vertical layers to the diagram are to be drawn in service maps to provide a visual representation of the structure of the service.

➤ In particular, the backstage activities are to be divided into those provided by frontline employees, support staff and management services.

When people begin to develop a blueprint, it quickly becomes apparent what is actually known about the service. Sometimes the shared knowledge is very little. Biases and prejudices are made explicit, and agreements and compromises must be reached. The process itself promotes cross-functional integration and understanding.

4.8 SERVICE PROCESS ANALYSIS

Service companies who wish to achieve high levels of service quality and customer satisfaction need to understand all the factors which may influence customer perception. 'Blueprinting' or service process analysis is a concept which breaks down the basic systems and structures of an organization in order to develop a greater understanding of the service process. The approach requires the identification of all of the points of contact between the customer and the service provider. Possible breakdowns in the service encounter can then be identified. These can then be acted upon and improved, thereby improving service quality. Several approaches to carrying out a blueprinting exercise have been suggested:

(a) **Blueprinting/cycle of service analysis:** The concept suggests that each contact with the customer is a 'moment of truth', each being an opportunity to either increase or decrease customer satisfaction. The customer's perception is a continuous stream of experiences which together determine the service quality. The company will very often not perceive the service in this way as their employees are constrained in their view by the particular part of the overall service with which they are involved. The blueprinting/cycle of service approach enables a service company to shift its employees' perception so that they have a better understanding of the customer's experience.

(b) **Value chain analysis:** This important analytical tool involves breaking down each of the activities of a firm into its various activities, and

showing where value is added for its customers. Each activity can be analyzed to determine its contribution to customer satisfaction and service quality.

(c) **Storyboarding:** This concept was developed by the Walt Disney organization in designing its theme parks in order to engineer the customer experience and ensure the greatest customer satisfaction. When a film is made, each scene is outlined in advance, using a series of sketches arranged in a sequence known as a storyboard. Similarly, sketches of each contact a customer has with the service provider can be used to identify points for improvement in customer service. Scenes can be rearranged to improve the quality of the customer experience.

4.9   SUMMARY

A market can have many customers with different needs and wants. Serving a narrow but viable set of small customers having similar needs and want that is of interest to the marketer is appropriate we call it segmentation or division of markets based on certain parameters. There are several parameters for market segmentation for example Geographic segmentation (religion, city, density, climate etc.) or Demographic segmentation (age, gender, marital status, family size, family cycle, income, purchasing capacity, price preference, education, occupation etc.) or Psychographic segmentation (lifestyle, personality etc.) or Behavioural Segmentation (buyer behavior, brand loyalty, attitude towards product, awareness status, usage status, purchase occasion etc.). The selection of above parameters or the combination of them is a matter of strategic choice for a marketer for example, a service marketer to an institutional customer would like to choose parameters such as Volume of purchase, ease of doing business or amount of paperwork involved, Decision-making type (centralized versus decentralized, one person versus committees), Price sensitive versus Quality sensitive and Technically aware versus unaware customer etc. Segmentation of services has many benefits the most significant is increased profitability due to efficiency in overall marketing effort.

After segmentation of customers the markets choose the segment/s which is most appealing to them this is called targeting. The marketers choose market based on market potential and their strengths. Some basis of selection of market could be: the segment's size & growth potential, the segment's overall attractiveness & profitability and the Company's objectives & resources. Having evaluated different segments, the company can consider targeting strategies like: Single segment concentration versus Selective specialization or Product/service specialization versus Market specialization strategy versus Full market coverage strategy. Sometime marketer may also go for counter segmentation in dynamic markets when they assume a future change in the impact of segmentation parameters.

Positioning is the next logical step to follow after the market segmentation and market targeting. Positioning is occupying a relative position in the minds of customers with respect to other service providers/competitors. Firms choose several ways to position themselves in the market. The strategies used by firms

are based on Attribute, Benefit, Use/Application, User, against a Competitor, Category or Quality/Price based positioning.

The components of a service are – service product, physical product, service delivery and service environment. Services also have a product life cycle which includes different stages of a product life namely, Introduction, Growth, Maturity, Saturation and Decline. To meet the changing needs and wants of the customers, marketers of services need to continuously redefine their services which call for development of new services. Like products, services development is a process comprising of steps such as Idea generation, Screening the idea, Concept Development and Testing, Business Analysis, Service Development and Market Testing and necessitates the participation of customers. Once the services are designed the entire process of production of service is also required for the purpose of standardization of services. The service process is designed and specified using the service blueprinting tool. A service blueprint is a picture or map that accurately portrays the service system so that the different people involved in providing it can understand and deal with it objectively regardless of their roles or their individual points of view.

4.10 SELF-ASSESSMENT QUESTIONS

1. Describe the segmentation of services.

2. What are the components of a service offer? Also discuss different levels of service.

3. Discuss the targeting of services.

4. What are the various product strategies available to a service firm?

5. Explain the positioning of services.

6. What are the implications of each?

7. Elaborate the services design and development with suitable examples.

8. What is the relevance of the life cycle concept to service products?

9. What are the different elements of service design system? Discuss.

10. Define service blueprint.

11. What do you understand by blueprinting and service mapping?

12. Enlighten the service process analysis with suitable examples.

13. What are the similarities and dissimilarities between blueprinting and service mapping?

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BLOCK

2

SERVICES MARKETING : ENHANCED STRATEGIC PERSPECTIVE

ETH-103 / ETH-085

ETH-103 / ETH-085

BLOCK INTRODUCTION

In **Block 2** you have learnt about the industrial & service marketing; managing service personnel, pricing of services, service promotionand personnel selling.

Unit 5 discusses about managing service personnel; service life cycle; service design, and service guarantee.

Unit 6 explains pricing of services: factors involved in pricing a service product; demand variation and capacity constraints; capacity planning; measures to respond to changes in demand; and reshaping demand using effective pricing.

Unit 7 deals with service promotion: promotion objective for services; and managing the integrated services communication mix.

Unit 8 deals with personnel selling; advertising and sales promotion; role of relationship marketing in promoting services.

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UNIT-05 MANAGING SERVICE PERSONNEL

UNIT FRAMEWORK

5.1   OBJECTIVES

After completing this unit you will be able to:

> ➤   to explain the role of service personnel

> ➤   to elaborate managing service personnel

> ➤   to know the service life cycle

> ➤   to examine the service design and service guarantee.

5.2   INTRODUCTION

Customers always look for information and visible cues associated with the attributes of the services they are willing to subscribe. Such information help them create opinion about the quality of service. One visible cue is the kind of service personnel. It is often said that the first impression is the last impression. The overall appearance including the dressing sense and conduct of the service personnel gives the vital face lift to the quality of service that helps boost the initial perception of the prospective customer. however, the performance and after sales service is equally important, a service oriented firm must therefore look carefully into the training and internal marketing to maintain quality and brand image.

While a well trained service personnel is an asset, it must be borne in mind that service design and focus on service personnels should go hand in hand to maximise the benefit. A mismatch in the training or orientation of the employees engaged in the production and front desk with the ethos of the service design will create chaos and degrade the overall experience of the customer.

5.3   SERVICE PERSONNEL

Service personnel are those people who provide an organization's services for customers. Service personnel are important in all organizations. These people may perform a 'production' or 'operational' role but may also have a customer contact role in service organizations. However, they are particularly important in those situations where, in the absence of clues from tangible products, the customer will form an impression of the organization from the behaviour and attitudes of its staff.

Service personnel include operators, bus drivers, lift attendants, librarians, clerks in banks, chefs, receptionists and counter clerks in hotels or hire car companies, security guards, telephones, repair and servicing personnel and waiters. These people may perform a 'production' or 'operational' role but may also have a customer contact role in service organizations.

Their behaviour may be as important in influencing the perceived quality of a service as the behaviour of formal sales staff. It is crucial therefore that these service personnel perform their jobs effectively and efficiently; also that the service organization's measures of effectiveness and efficiency include a strong element of customer orientation among its staff.

Service personnel include those members of the organizations from industrial good companies is that the customer may come into contact with people whose primary role is to perform a service rather than to market a service.

Service personnel include those members of the organization who are in contact with customers (contact personnel) and those members of the service organization who are not in contact with customers. Some of these staff may be visible to the customer during purchase and consumption of a service.

Service personnel quality:

The type of service a customer receives can be viewed as consisting of two elements:

(a)   Technical quality;

(b)   Functional quality.

(a)   **Technical Quality**- Technical quality refers to 'what' the customer receives in his interactions with service organizations: the bedrooms in a hotel; the meal in a restaurant; the transport service of a distribution company. It may be capable of objective measurement as with any product and it forms an important element in any customer's evaluation of a service.

(b) **Functional Quality**- Functional quality refers to 'how' the technical elements of the service are transferred. Two important components of how the technical elements of service are provided are the process and the people involved in operating the system. Functional quality may be less capable of object measurement. It nevertheless forms an important element in any customer's evaluation of a service.

The components of the system are:

1. Attitudes of employees;

2. Behaviour of employees;

3. The relationship between them;

4. The importance of employees who have contact with customers;

5. The appearance of service personnel;

6. The general 'accessibility' of services to customers;

7. The general service mindedness of personnel.

5.4   MANAGING SERVICE PERSONNEL

The more involved customers become in the service delivery process, the more visible service personnel and other customers become (this is the *people* element of the Services marketing mix). In many people-processing services, customers meet lots of employees and often interact with them for extended periods of time. They are also more likely to run into other customers.

After all, many service facilities achieve their operating economies by serving large numbers of customers simultaneously. When other people become a part of the service experience, they can enhance it or detract from it. Direct involvement in service production means that customers evaluate the quality of employees' appearance and social skills, as well as their technical skills concerns that are important for human resource managers and front-line supervisors. And because people also make judgments about their fellow customers, managers find themselves trying to shape customer behavior, too.

These ideas are intended only to illustrate some of the measures service organizations may take. In practice there is often overlap between actions and practices in each category and a number of other possibilities may be considered.

1. **Careful Selection and Training of Service Personnel**- The clear implication of the importance of personal contact with many services is that recruitment, selection, training and development programmes have to be tailored to the needs of the services being provided. There should be a clear understanding of the job by service personnel. This involves drawing up detailed job specifications. Also the qualities required in the people undertaking customer contact jobs should be defined.

   Service jobs traditionally can be classified according to the type of educational requirements, previous experience required, social skills required and so forth. One recent suggestion is that service sector

employees should be divided according to the communication demands placed upon them by customers. The nature and type of communication may be an important determinant of employee qualities sought. Finally attention needs to be given to how the job will be controlled and organized.

2. **Internal Marketing**- What the internal marketing concept does is to re-emphasize the importance of marketing to people who serve external customers. Internal marketing means applying the philosophy who serves the external customers so that (i) the best possible people can be employed and retained and (ii) they will do the best possible work. This interpretation implies that employees are viewed as internal customers and jobs are internal products which have to be designed to better meet the needs of customers. If the organization offers employees better, more satisfying jobs then it increases its ability to be a more effective service organization.

Internal marketing is of crucial importance since staff may be reluctant to sell a service product which they do not find acceptable. This point can be illustrated by the attitude of some staff to the banks' new charging policies for credits collected for other banks.

During the introduction of these policies, some staff would not accept the directive to charge customers for using the service partly due to certain long-established customer relationships. The policy had to be modified and ended in an authority to charge only when 'feasible'.

3. **Using Practices to other Consistent Behaviour**- A third problem for the service organization lies in achieving consistency of behaviour among staff. The behaviour of the consumer will affect the behaviour of the human representatives of the firm and the quality of the service provided may vary since it depends very much on the individual who offers it. For example, the branches of a bank may offer identical services to their customers; but the success of individual cashiers in 'producing' these services can vary widely. Achieving consistency of human effort is an important goal of many service organizations. Clearly it is important for service organizations to establish set procedures for some of their services to ensure they are performed in a consistent way. There are dangers though that such practice can become too mechanistic. Most organizations have to strike a balance between too much rigidity in their systems and too much flexibility. Procedures have to be flexible enough to tolerate the ambiguity of customer variety.

4. **Ensuring Consistent Appearance**- Bearing in mind the characteristics of intangibility of many services, the appearance of the establishment and its personnel are often the only tangible aspects of a service organization. Therefore 'the consumer can be expected to choose a service supplier whose place of business and sales personnel clearly suggests the quality of service desired for the satisfaction of his needs. One way in which organizations attempt to create an image and suggest quality of service is through the appearance of service personnel.

The appearance of service personnel can be controlled by service management. One way in which this may be accomplished is through the use of 'uniforms' and styles of dress. Waiters in hotels, airline stewardesses, motoring centre repairmen may all be required to adopt certain formal styles of dress. The degree of formality may range from the issue of a top coat to a complete uniform including accessories.

Further standardization of appearance may be accomplished by recruiting service personnel with specific characteristics (e.g. of a certain height or age range). Also the service organization may provide facilities to encourage personal care like hairdressing and beauty parlours. Even when a service organization does not require the wearing of a formal uniform for protective or promotional purposes, an 'acceptable' style of dress may be deliberately encouraged (e.g. amongst bankers and stockbrokers).

5.5   SERVICE LIFE CYCLE

A service has also life cycle analogous to the biological life cycle. The services life cycle has definite stages of life depending upon the performance of the service in the marketplace. The service life cycle comprises of four well-known stages, namely, the introduction stage, the growth stage, the maturity stage and the decline stage.

1. **Introduction Stage:** The introduction stage represents a slow rate of growth of revenue as the service is introduced in the market. Promotion costs are high at this stage. The service is yet to catch up a reasonable market share and wide consumer acceptance. A period of slow sales growth as the product is being introduced into the market. Profits are non-existent at this stage because of the heavy expenses of product introduction. Also, the introduction takes time, and sales growth is apt to be slow. Some product may linger in the introduction stage for many years before they enter a stage of rapid growth. For instance, the small and independent beauty parlours have been around quite some time. But with so many rapid changes in the social climate, even big names like HLL and Marico industries have entered this market in a big way. In the introductory stage, there are only a few competitors who produce basic versions of the product, because the market is not ready for product refinements. The firms focus on selling to buyers who are ready to buy, usually the higher-income groups. Prices tend to be on the high side because of low output, production problems and high promotion and other expenses.

2. **Growth Stage:** The organisation's revenue increases at a higher rate and even profitability may be achieved at this stage. Promotion costs come down and the firm captures a good market for the service. The firm can even think of additional investment for expansion of the service. A period of rapid market acceptance and increasing profits. Competitors will enter the market, attracted by the opportunity for profit. It happened in the Indian domestic aviation industry with Air Deccan entering the market as a low-cost carrier (LCC). Soon there was a rush of LCCs like SpiceJet,

GoAir, IndiGo and others. Prices remain where they are or fall only slightly. Firms keep their promotion spending at the same or at a slightly higher level to meet competition and continue educating the market. The firm users several strategies to sustain rapid market growth as long as possible:

> Improve product quality and add new product features and models

> Enter new market segments

> Enter new distribution channels

> Shift some advertising from building product awareness to building product conviction and purchase

> Lower prices at the right time to attract more buyers

3. **Maturity Stage:** Mature service offerings are characterised by steady demand for the service and stability in earnings. The firm faces extreme competition in the marketplace. The main task of the firm is to retain the market share by putting extra efforts to promote revenue. A period of slowdown in sales growth because the product has achieved acceptance by most of its potential buyers. This slow down causes supply to exceed demand. The resulting overcapacity in the market leads to greater competition. Profits level off or decline because of increased marketing outlays to defend the product against competition. The only way to increase sales significantly is to steal customers from the competition. Thus, price wars and heavy advertising are often the means used to do this, both of which add to the marketing cost. Weaker competitors start dropping out. The industry eventually contains only well-established competitors in the main market segments with smaller competitors pursuing the niche markets. Instead of just defending the product, a firm should consider modifying target markets and the marketing mix elements.

4. **Decline Stage:** All services may not have high market acceptance at all times. Some services fade out or may be replaced by new ones. The poor performance leads to fall in revenue and profitability and service comes to a decline stage in the life cycle. A period when sales are decline quickly and profits drop. It may be because of reasons like technological advances, shifts in consumer tastes and increased competition. As sales and profits decline, some firms may withdraw from the market. Those remaining may reduce the number of their product offerings. They may drop smaller market segments and marginal trade channels. They may cut the promotion budget and reduce their prices further. Carrying a weak product can be very costly to the firm, and not just in terms of reduced profit. Keep weak products delays the search for replacements, creates a lopsided product mix, hurts current profits and weakens the company's foothold on the future. For these reasons, firms must pay attention to their ageing products. Regularly reviewing sales, market shares, costs and profit trends for each of its products will help to identify products in the decline stage.

The life cycle concept thus helps service managers in designing and fine-

tuning appropriate marketing strategies depending upon the particular life cycle of the service. Notice that the service life cycle concept applies to services/categories within an industry, not to individual brands. Also some services may move rapidly through the service life cycle while others pass through those stages over long time periods. In a global context, a service may be seen in different stages of its life cycle in different markets.

5.6   SERVICE DESIGN

Service product design refers to the design of the physical attributes of the service. The subscription options for home cable television service or the banking transactions that are available through an automatic teller machine are examples of such attributes. These attributes may involve the assembly of raw materials or developing software.

Further the service facility design refers to the design of the physical layout of the facilities. Customers' perceptions of the quality of the service are influenced by attributes such as cleanliness, spaciousness, lighting and layout of the environment, where the service takes place. In addition to these facilities, other additional facilities such also need to be designed. The efficiency of service operations depends on the configuration of these facilities.

Service operations process design refers to the activities that are needed to deliver or maintain a service. The activities that make up the operations processes are those required for the service to deliver its output. By contrast, the activities comprising the customer service process design pertain to the interactions between the customer and the service provider. For example, in the car rental example described above, in addition to the operational steps, the representative may greet the customer on arrival, refer to him by name, ask him for his preference of cars, and bid him farewell on departure. The customer service and service operations activities together make up the car rental process. The quality of the service experience depends on the performance of both types of activities. These activities therefore need to be designed together.

STEPS IN SERVICE DESIGN

A real design exercise involves the complex interactions of a variety of technical and non-technical factors that affect the quality of the design. In order to design a product, it is important to employ a methodology that integrates the technical aspects of the design with the marketing and management principles that are required to ensure the commercialization of the product. Such a methodology is referred to as total design.

Step 1:	To involve the customer in designing process.
Step 2:	To determine the specifications of the design from these customers.

Step 3:	To determine the technical aspects of the design from these customer as per the specifications. The technology should be a derivative of the customers need and not the other way around.
Step 4:	To design the service using a multi-function team with.
Step 5:	To test the design in the marketplace, and not in the laboratory. A successful design should not only be one that creatively applies the latest technology, but should also be one that customers like, purchase, and use.

5.7 SERVICE GUARANTEE

A service guarantee is a marketing tool service firms have increasingly been using to reduce consumer risk perceptions, signal quality, differentiate a service offering, and to institutionalize and professionalize their internal management of customer complaint and service recovery. By delivering service guarantees, companies entitle customers with one or more forms of compensation, namely easy-to-claim replacement, refund or credit, under the circumstances of service delivery failure. Conditions are often put on these compensations; however, some companies provide them unconditionally.

Service offerings are largely intangible in nature. Customers are thus unable to assess the purchase outcome prior to experience, rendering the risk of possible customer dissatisfaction very high. It is argued that the concept of service guarantees proposed by services management theory can be effectively utilised to reduce the perceived risk of dissatisfaction for the customer in service organisations.

Additionally, it is suggested that service guarantees force management to undertake activities which elevate the superiority of the organisation in the eyes of the customer and, thus, the opportunity to transform one-time customers into loyal ones. The purpose of this text is twofold: first, to illustrate how customers' behavioural intentions can be influenced by the use of a service guarantee; and second, to outline a systematic process that can help service business managers to develop and implement an effective service guarantee.

ELEMENTS OF GUARANTEE

A guarantee contains two typical elements:

(i) A service promise or pledge that expresses the firm's willingness to engage in behaviours considered desirable by its customers and

(ii) A compensation offer in case of service failure. Thus, unconditional and specific may be used to represent the service promise (about all or specific attributes of the service respectively) guaranteed by the firm, while compensation is separately specified. Empirical evidence shows that firms

provide full refunds (e.g., money-back guarantees), partial refunds (e.g., assessment based upon damage or use, exchanges less restocking fees or shipping charges), or award punitive damages (e.g., token credits or payouts) when guarantees are invoked.

Compensation and claim procedures may be either implied or explicitly stated in the guarantee. In addition to resolving definitional problems, this distinction potentially increases the combinations of promises and compensation schemes available for study. This allows for a richer investigation of the effects of service guarantees.

FEATURES OF A GOOD GUARANTEE:

A good guarantee has the following features:

(i)   Credible: Guarantees must be offered in a believable manner.

(ii) Easy to Collect: Service providers should design an easy and problem-free guarantees collection process for customers. For example, a dissatisfied customer at Hampton Inn should receive an immediate credit for the price of the dissatisfying service. The customer should not have to drive across town to obtain payment, nor should the customer have to fill out a laborious form or accumulate a tedious amount of documentation.

(iii) Easy to Invoke: The guarantee should be less dependent on the customer and more on service provider. Let us consider the Hampton Inn guarantee, for example Suppose the customer's air conditioning did not work on a hot summer night, and the problem could not be rectified, in spite of bringing it to the management's attention. For the guarantee to be effective, management should make that night free, without waiting for the customer to ask. If it is evident that the customer is dissatisfied, and the problem has not been solved, then management should invoke the guarantee itself.

(iv) Easy to Understand: If the customer does not understand the guarantee, then that customer will not see any benefit. For maximum effectiveness, the guarantee should be specific. For example, Domino's pizza guaranteed delivery in 30 minutes. That is much better than guaranteeing "fast delivery," which is hard to pin down. Be specific.

(v)   Comprehensible: The guarantees must be easy to understand and communicate so that customers can have clear awareness of the benefits of the guarantees.

(vi) Meaningful: Firms must make the guarantee important to the customers and provide adequate values to offset service failure. A fast-food restaurant guaranteeing 10-minute service at lunch will probably do better than one guaranteeing to address customers by their first name. This is because fast service at lunch is important to fast-food customers, whereas personal familiarity is not.

(vii) Unconditional: Promises of the guarantees must be unconditional and no elements of surprise should be made to customers. If a guarantee applies only to left-handed people on Friday in a leap year when there is a full

moon, few customers will be very interested. By comparison, consider the Hampton Inn guarantee. It says simply, "If you're not completely satisfied, we don't expect you to pay. This is unconditional and you don't need to be a lawyer to understand it.

BENEFITS OF SERVICE GUARANTEE:

The benefits to the company of an effective service guarantee are as follows:

(i) **Sets Clear Standards for the Organisation:** It prompts the company to clearly define what it expects of its employees and to communicate that to them. The guarantee gives employees service-oriented goals that can quickly align employee behaviours around customer strategies.

(ii) **Forces the Company to Focus on its Customers:** To develop a meaningful guarantee, the company must know what is important to its customers what they expect and value. In many cases "satisfaction" is guaranteed, but in order for the guarantee to work effectively, the company must clearly understand what satisfaction means for its customers (what they value and expect).

(iii) **A Good Service Guarantee Studies the Impact on Employee Morale and Loyalty:** A Guarantee generates pride among employees. Through feedback from the guarantee, improvements can be made in the service that benefits customers, and indirectly employees.

(iv) **Immediate and Relevant Feedback from Customers:** It provides an incentive for customers to complain and, thereby, provides more representative feedback to the company than simply relying on the relatively few customers who typically voice their concerns. The guarantee communicates to customers that they have the right to complain.

(v) **Reduces their Sense of Risk and Builds Confidence in the Organisation for Customers:** Because services are intangible and often highly personal or ego involving, customers seek information and cues that will help reduce their sense of uncertainty.

For customers, service guarantees play an important role in alleviating perceived risks of the purchase. The guarantees also facilitate more ease and more likelihood for customers to complain, since they expect the front-line staff to be ready with resolutions and appropriate compensations. From companies' perspectives, according to the vice President of Hampton Inn, "Designing the guarantee made us understand what made guests satisfied, rather than what we thought made them satisfied."

TYPES OF SERVICE GUARANTEES:

Further, previous research has identified four types of service guarantees:

(i) Specific

(ii) Unconditional

(iii) Implicit and

(iv) Internal

(i) **A Specific Guarantee:** Signals firm commitment on specific attribute performance such as delivery time or price. Specific guarantees allow customers to evaluate service by disconfirming attribute performance expectations. From the firm's perspective, a specific guarantee can serve not only as a benchmark to guide employee efforts and firm process design, but also as a performance measure. However, the narrow focus on some attributes may not be highly valued or appreciated by a heterogeneous customer base, although it may appeal to certain segments.

(ii) **An Unconditional Guarantee:** Promises performance on all aspects of service, and "in its pure form, promises complete customer satisfaction, and at a minimum, a full refund or complete, no cost problem resolution for the payout." Unconditional guarantees require a slightly different firms approach since variables that determine customer satisfaction such as effect and cognitive evaluations of attribute performance (Oliver) are not within the firm's control. Implementation of unconditional guarantees requires firms to focus efforts on managing customer interactions instead of specific service attributes. The distinction between specific or overall (unconditional) performance is important as it defines the scope of the marketing effort required to communicate and support the guarantee, and has widely different implications for service guarantee design and management.

(iii) **Implicit Guarantee:** As the term suggests, it is an unwritten, unspoken guarantee that establishes an understanding between the firm and its customers. Customers may infer that an implicit guarantee is in place when a firm has an outstanding reputation for service quality. The focus of an implicit guarantee is customer satisfaction. Previous research suggests that customers are more likely to rely on explicit firm promises instead of implicit cues to make inferences about the firm.

(iv) **An Internal Guarantee:** Is "a promise or commitment by one part of the organization to another to deliver its products or services in a specified way or incur a meaningful penalty, monetary or otherwise." Since implicit guarantees are unconditional guarantees (without formal expression of explicit commitment) and the focus of internal guarantees is limited to coordinating functions and employees, the subsequent discussion includes only specific and unconditional guarantees.

5.8 SUMMARY

The service employees are the external face of the service organisation. They are not only engaged in the production of the services but also in the customer handling. They must be well trained on performance aspects as well as in their overall conduct. The customers perceive the quality of service on certain visible cues and information around the services. The conduct and performances of the employees gives the first hand perception of the technical and functional quality of the service.

Service oriented organisations invest heavily on their employees. They not

only recruit people carefully and train them, they also resort to internal marketing. The internal marketing helps create a convinced, motivated and aligned employee who can passionately conduct his duties and serve the customer better. Service organisations also strive to achieve consistency in behaviour among staff given that the extremes of flexibility and consistency is counterproductive. Service management also prescribes uniform to its employees to govern the appearance of the employees particularly the employees that come directly in contact with the customers.

The emergence of a new service its growth, maturation and fall in an economy is much similar to a product life cycle. The life cycle concept helps service managers in designing and fine-tuning their marketing strategies according to the particular life cycle stage of their service.

Customers' perceptions of the quality of the service are influenced by its attributes. Consistent evaluation of the changing preferences and behaviors of the customers and upgradation in both service product design and service facility design is desirable to maintain the quality of service experiences.Since the customer service and the service operations activities together constitute a service. These activities therefore need to be designed together. The designing of services is a step wise step exercise that involves many complex technical and non technical factors including customers.

Unlike tangible products customers of a service are unable to appreciate its quality fully, unless and until they actually use it. This renders them susceptible to risk of possible dissatisfaction. Service guarantee comes as an assurance from the service provider as an entitlement to compensation, like easy-to-claim replacement, a credit note or a refund in the event of service delivery failure. A service guarantee is a marketing tool service firms have increasingly been using to reduce consumer risk perceptions, signal quality, differentiate a service offering, and to institutionalize and professionalize their internal management of customer complaints and service recovery.

5.9 SELF-ASSESSMENT QUESTIONS

1. What do you understand by service personnel? Explain it with suitable examples.

2. Describe the managing service personnel.

3. Elaborate service life cycle with taking example of services.

4. What is the service design? Describe it.

5. Define service guarantee. Explain service guarantee with suitable examples.

6. Describe the features of service guarantee.

7. What are the benefits of service guarantee? Explain it.

8. Discuss the types of service guarantee.

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UNIT-06   PRICING OF SERVICES

UNIT FRAMEWORK

6.1   OBJECTIVES

After completing this unit you will be able to:

➢   to explain the pricing of services

➢   to elaborate factors involved in pricing a service product

➢   to know the demand variation and capacity constraints

➢   to examine the capacity planning and measures to respond to changes in demand

➢   to discuss the reshaping demand using effective pricing.

6.2   INTRODUCTION

Pricing decisions is the next important strategic decision for a service marketer. Just as a price higher than the perceived value is detrimental, a price too low is also suicidal for the long running of a business. Pricing decisions are probably the most difficult ones. They range from the most complex to the ones that are based on either cost plus or matching competitor or even hit and trial methods to arrive at optimal price.

Compared to the challenges involved in the pricing of tangible products there are a great variety of factors that are considered in the pricing of the services. The challenges posed by intangibility is itself is huge in pricing decision of a service, nevertheless, the issues of inseparability, heterogeneity, no scope of storage to tackle fluctuations in demand etc make the task even more challenging. These differences in the environment determines the diversity of pricing decisions and terms in services that shall be covered in this chapter..

6.3 PRICING OF SERVICES

Pricing decisions are of major importance in service marketing strategy. As with other marketing mix elements, the price of a service should be related to the achievement of marketing and organizational goals and should be appropriate for the service organisation's marketing program. Service pricing principles and practices tend to be based on principles and practices used in pricing goods. As with goods, easy generalizations about pricing are difficult to make. There is as much diversity in the service sector as in the goods sector. The great variety of environments in which service pricing decisions are made and the diversity of pricing practices which may apply, is partly reflected in the many different terms used to describe the prices of services.

Price is the only marketing mix element that produces revenue. All others represent cost. A pricing mistake can lead to business failure, even when all other elements of the business are sound. A price is an expression of value. The value rests in the usefulness and quality of the product itself, in the image that is conveyed through advertising and promotion, in the availability of the product through wholesale and retail distribution systems, and in the service that goes with it. A price is the seller's estimate of what all of this is worth to potential buyers, recognizing the other options buyers will have for filling the need the product is intended to satisfy. To the extent that the product or service finds markets and is profitable at given price levels, it provides a viable economic base for building and maintaining a business.

In the competitive marketplace, pricing is a game. The struggle for market share focuses critically on price. Pricing strategies of competing firms, therefore, are highly interdependent. The price one competitor sets is a function not only of what the market will pay but also of what other firms charge. Prices set by individual firms respond to those of competitors; they also are intended to influence competitors pricing behaviour. All of marketing comes to focus in the pricing decision.

6.4 FACTORS INVOLVED IN PRICING A SERVICE PRODUCT

A way to think about making a pricing decision is that price should be set somewhere between what the product costs to make and sell and its value to the customer. If price exceeds the perceived value of the product to potential purchasers, it has no market. If the price is below what the product costs to produce, the business cannot survive for very long. Where a price should be set

between cost and customer value is a strategic decision. This decision is more difficult in the case of services than products. It is because of the key differences between customer evaluation of pricing for services and goods. For instance, customers often have inaccurate or limited reference prices for services. Monroe (1989) describes reference price as a price point in memory for a good or a service, and can consist of the price last paid, the price most frequently paid, or the average of all prices customers have paid for similar offerings. But many consumers are quite uncertain about their knowledge of the prices of services and the reference prices they hold in memory for services are not as accurate as what they hold in memory for products. This difference can be explained by the following factors:

➤ Service heterogeneity limits knowledge. The intangible nature of the services gives the service firms great flexibility in the configurations of services they offer. It leads to complex and complicated pricing structures. For example, consider a health insurance plan.

➤ Service providers are unwilling to estimate prices. The fundamental reason in many cases is that they do not know themselves what the services will involve until the process of service delivery. So a prior estimation is very difficult. For example, consider medical diagnosis and treatment.

➤ Individual customer needs vary. As a result, uniform pricing may not be feasible. For example, consider the legal services.

➤ Price information is overwhelming in services. In most cases, there are not list prices because of the reasons mentioned above. As a result, price comparison becomes difficult.

➤ Prices are not visible and they may be hidden or implicit. For example, consider the financial services. In few cases, many customers do not see the price at all until after they receive certain services.

Another unique characteristic of services is the role of non-monetary costs (like time costs, search costs and psychological costs) in the evaluation of whether to buy a service. Most services require direct participation of the consumer and thus consume real time. Time becomes a sacrifice made to receive service in multiple ways. Also, waiting time for a service is usually longer and less predictable than waiting time to buy goods. Search costs (i.e. the effort invested to identify and select among desired services) are also higher for services than for physical goods. The most difficult non-monetary costs are the psychological costs incurred in receiving some services. Fear of not understanding (say, in the case of an insurance claim), fear of rejection (say, in the case of a bank loan) and fear of uncertainty (say, the fear of being charged more than other consumers) constitute psychological costs that customers experience as sacrifices when purchasing and using services. When quality is hard to detect or when quality or price varies a great deal within a class of services, consumers may believe that price is the best indicator of quality. Unlike goods (products) that are dominated by search properties, services are dominated by experience and credence properties.

Therefore price is not used to judge quality in goods as often as it is in services. Since customers depend on price as a cue to quality and because price sets expectations of quality, service prices must be determined carefully.

There are a number of factors which influence the pricing decisions of marketers. While some of these are external or environmental factors (such as nature of the market and demand, competition, demand conditions, economy, resellers and the govt.; and so on), others are internal factors (like marketing objectives, marketing mix strategy, cost conditions, pricing organization and so on).

6.5   DEMAND VARIATION

'All the activities and decisions management carries out in order to plan and implement how they will attempt to influence the level of demand for any service offered at any point in time'. Some demand management efforts are aimed at increasing demand, and some at changing the timing of demand. This paper looks primarily at those actions that change the timing of demand, although these efforts may also have the effect of increasing or decreasing total demand. Note that demand can only be managed if patterns (time and/or place) can be predicted and influenced.

While it is sometimes assumed that influencing demand is impossible (based on discussions with managers and researchers), we will see that all services we studied already use demand management. At the same time, the potential for influencing when customers demand service is limited for services that cannot schedule customers. For instance, a bank likely cannot eliminate the large demand on paydays, and a supermarket cannot entirely reduce the peak resulting from customers stopping on their way home from work.

The effectiveness of various Demand Management Options (DMOs) will depend on the particular service industry, the location, and the customer base. For instance, a supermarket manager revealed that it is easier to influence the timing of demand at a store that has retired people as its primary clientele, since these people are not restricted to non-working hours.

A fast food outlet manager revealed that an outlet located downtown will generally have higher lunch demand but much lower dinner and evening demand than an outlet located in the suburbs. Despite these uncontrollable factors, services can be successful in encouraging customers to change their habits.

Almost all demand management efforts represent an effort to smooth demand, to reduce the peaks and increase the valleys. In some cases this involves smooth demand for only one part of the service as occurs when a bank installs an ATM machine. The machine can handle few of the types of services the bank offers, but has the effect of reducing the demand for basic services during regular hours and increasing the demand after hours.

It is necessary to have a clear understanding of **demand patterns to manage fluctuating demand** effectively in a service business, which are as follows:

(1) **Charting Demand Patterns:** First, the organisation needs to chart the level of demand over relevant time periods. Organisations that have good computerized customer information systems can do this very accurately. Others may need to chart demand patterns more informally. Daily, weekly, and monthly demand levels should be followed, and if seasonality is a suspected problem, graphing should be done for data from at least the past year's data. In some services, such as restaurants or health care, hourly fluctuations within a day may also be relevant. Sometimes, demand patterns are intuitively obvious; in other cases patterns may not reveal themselves until the data are charted.

(2) **Random Demand Fluctuations:** Sometimes, the patterns of demand appear to be random there is no apparent predictable cycle. Yet even in this case, causes can often be identified. For example, day-to-day changes in the weather may affect use of recreational, shopping, or entertainment facilities. Although the weather cannot be predicted far in advance, it may be possible to anticipate demand a day or two ahead. Health-related events also cannot be predicted. Accidents, heart attacks, and births-all increase demand for hospital services, but the level of demand cannot generally be determined in advance. Natural disasters such as floods, fires, and hurricanes can dramatically increase the need for such services as insurance, telecommunications, and health care. Acts of war and terrorism such as that experienced in the United States on September 11, 2001, generate instantaneous need for services that can't be predicted.

(3) **Predictable Cycles:** In looking at the graphic representation of demand levels, is there a predictable cycle daily (variations occur by hours), weekly (variations occur by day), monthly (variations occur by day or week), and/or yearly (variations occur according to months or seasons)? In some cases, predictable patterns may occur at all periods. For example – in the restaurant industry, especially in seasonal tourist settings, demand can vary by month, by week, by day, and by hour. If there is a predictable cycle, what are the underlying causes? The Ritz-Carlton in Phoenix knows that demand cycles are based on seasonal weather patterns and that weekly variations are based on the workweek (business travellers don't stay at the hotel over the weekend). Tax accountants can predict demand based on when taxes are due, quarterly and annually.

(4) **Demand Patterns by Market Segment:** If an organisation has detailed records on customer transactions, it may be able to disaggregate demand by market segment, revealing patterns within patterns. Or the analysis may reveal that demand from one segment is predictable, while demand from another segment is relatively random. For example for a bank, the visits from its commercial accounts may occur daily at a predictable time, whereas personal account holders may visit the bank at seemingly random intervals. Health clinics often notice that walk-in or "care needed today" patients tend to concentrate their arrivals on Monday, with fewer numbers needing immediate attention on other days of the week. Knowing that this pattern exists, some clinics schedule more future appointments (which they can control) for later days of the week, leaving more of Monday available for same-day appointments and walk-ins.

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6.6 CAPACITY CONSTRAINTS

How much of what (service) will be needed to achieve its pre-determined goals is an important consideration that makes an advocacy in favour of capacity planning and scheduling. However approximate we find the analysis of demand; the service generating organisations bear the responsibility of planning for the capacity. There are a number of critical variables requiring due consideration in the process such as, goals of the service firm, availability of capital and the quality of human resources, market segments served and the level of service quality aimed at. A detailed scheduling of man, materials, money and machines (Four M's) is essential for each element of the service mix on a time map building the brand nationally and globally

Positioning is the articulation of a brand-building strategy for a service. It would be ultimately tested when the service brand is built up through a combination of marketing and branding initiatives. The rest of this book deals with the process of doing all that it takes to successfully market the services. The process of building a new service brand can take a few years, particularly across a large geographical area. Locally, in a limited area, some brands can be built successfully in a much shorter period, such as a new restaurant, a college, or a resort. Typically, the Indian brands in various service categories are not very large or spread out widely across geographical areas. There are some exceptions to this (For example Agarwal packers and movers, Gati cargo, Taj hotels, NIIT computer coaching centres, and Maruti car service available through authorized dealers). The US market provides the best examples of big service companies, with uniform brand names spread across a large geographical area. There is Wall Mart, the largest retailer in the world, and many others like Sears, Target, etc. in the same line of business. In food, they have the McDonald's and Wendy's chains, in seafood there is Long John Silver's, in oil changes for cars there is a chain called Jiffy Lube, and in books, a chain called Waldenbooks. Similarly, in hotels, there are chains such as the Marriott and Ritz-Carlton.

In India, typically the service brands are local or at the most regional brands, catering to a region (southern, northern, eastern, etc.). There may be contributing factors involved in this, such as a startling diversity in taste across regions, states, etc. which has made a uniform approach rather difficult. However, efforts are now being made in areas like garments and toys to set up pan-Indian retail stores with a common brand identity, such as Pantaloons and Shopper's Stop. But there have been success stories in the media, of TV channels suddenly capturing a large market across many Indian states, like Zee TV in the north, Sun TV in the south, and Star Plus across many states with successful programming designed to the housewives' tastes. The Delhi Public School, a school in Delhi, now has franchised locations outside Delhi too, in places like Kolkata, Lucknow and Pune, to capitalize on its brand image. So do many coaching classes that prepare students for a management entrance tests, like Time, Career Launcher, and IMS.

In general, however, the Indian service brands have a long way to go, when compared with brands of the American companies. Why is it that an Indian entrepreneur does not dram of selling a McDosa' or a McVada' across the world?.

Why cannot we capture the quintessential Indian theme of Atithi Devo Bhava to start a chain of global hotels? Perhaps, the opportunities were there, and still continue to exist. Maybe the environment was not conducive to thinking big, with too many constraints imposed by India's poverty of vision and economic policy. But there may be a day in the next two decades, when we may strike it big in many services, other than our staple, the IT sector.

It is also likely that trends like research, design and development laboratories of the world migrating to India may accelerate, and fields like pharmaceutical and biotechnological research may grow in India, supported by foreign company funding. The brand India is globally known for high-tech services where brainpower is required. It is relatively weak in the development of capital-intensive services, and in the management of processes in large organizations. However, services are a possible outlet for India's capabilities, which have typically lagged behind her potential.

It is the time to consider various traditional of services and examine the most versatile information Technology service that offers much more than what it is offering right now. The sector is undergoing tremendous rationalization that works on the principle of less people and more work: much different from the traditional ideas of more people and less work.

The subject of services as a specialized sector of marketing has its roots in the following points:

➢ Owing to the emergence of multiple sources of income and more professionalism, the consumers are getting higher disposable incomes, which they can spend, at their discretion for a more comfortable and convenient life. There can be exceptions like misers and saints, who may not like to go for the good things of life even if they have adequate purchasing power.

➢ There is intense competition in the market; to be a cut above the rest; the business organisations hire specialized agencies that can offer them the best services for their plans and procedures to gain perfection. Earlier, specialists like lawyers, auditors, and consultants were hired by major organisations, but as the scenario is changing even small organisations are looking for specialists in transport and warehousing, advertising agencies, expert underwriters, field management agencies and what not.

➢ Today's customer is highly demanding. He wants everything at one point.

Hence, departmental stores, apart from selling their usual products have started giving additional services. For example, if you buy cloth, they may also give the facility of stitching and dry cleaning.

6.7 CAPACITY PLANNING

It is not sufficient that we are interested only in managing our present. It is much more significant that we keep our eyes open, minds active to know about the future and continue to enrich our potentials to manage the future. Of late, we

find a good number of organizations that concentrate their energy on current development plans but undermine the developments to take place in future. This makes ways for the emergence of numerous complications. The organisations not managing the future fail in managing the demand and supply position, make it difficult to optimize the development of marketing resources to cope with the changing requirements, make possible a contraction in their resistance power and both on quantitative and qualitative fronts, we find them moving backward. It is against this background that we need to assign due weightage to capacity planning. By capacity planning, our emphasis is on the management of strength. It is, of course, due to deficient management that we improve the supply position but the process of demand generation is energized non-optimally. We invest on resources but fail in getting the return and thus a vicious circle is formed which questions the soundness of our strength. If we assign due weightage to the management of strength and continue to activate the process of enriching the potentials, we find ourselves in a sound position to make an attack on the multi-dimensional threats and challenges in the business environment. The capacity planning focuses on the management of strength in the face of changing scenario is vital.

The service generating organisations not aware of the future find it difficult to increase their strength. This makes it essential that they have in-depth knowledge of future. They make possible a micro-scope evaluation of their strength in tune with the world class developments; they know about the strength of their competitors they perceive an idea of the emerging trends in demand and they are sound enough to improve the supply position which caters to the changing needs and requirements of prospects/users. Thus we find emphasis on strength both in quantitative and qualitative terms. To be more specific in the Indian perspective, we find a majority of the service generating organisations not efficacious in managing the future, which often creates an imbalance in the demand, and supply position. This makes it essential that we assign a transcendental priority to capacity planning.

Capacity planning is known as planning the capacity in the face of future. This throws light on both the aspects-first, the organisations are supposed to know the demand position so that the potentials are enriched to increase the quantity or capacity of generating the services and second, the organisations are also required to know about the likes and dislikes, preferences, expectations, attitudes which make an advocacy in favour of quality generation. In simple words you know about the taste and expectations of prospects/users and improve your capacity to offer the same. Thus the professionals need excellence to study the market conditions and further to rate their potentials so that lapses are identified and the corrective measures are taken. If the users expect sophistication in service, the organisations need to use sophisticated technologies to fulfill their expectations and this is not possible unless we think in favour of capacity planning.

The capacity planning thus focuses our attention on the strategic planning, which makes an advocacy in favour of the formulation of an action plan to enrich strength. It is natural that in the years to come, the intensity of competition would go up which would make it essential that the service generating organisations keep on moving the process of qualitative transformation. On the one hand, they

need to improve the quality of services and on the other hand also to inject additional attractions to their service mix by innovating the peripheral services. On the whole, they need to offer world-class services found competitive both at national and international levels. It is high time that they think in favour of making things happen and intensify research activities to innovate the marketing resources.

The strategic plan would make the ways for the mobilization of financial resources to cater to their increasing requirements. We can't deny the fact that if an organisation succeeds in maintaining the process of profit generation, the financial health of that organisation becomes so sound that the task of satisfying the employees and investors is simplified considerably. This makes it pertinent that like the goods manufacturing organisations even the service generating organisations also carry forward the task of making health sound. If you are physically sound, the task of countering the diseases is found much easier. If an organisation is strong, the task of facing the challenges and threats in the markets is simplified considerably. It is against this background that strategic planning assumes a place of outstanding significance. When we talk about capacity planning, our prime focus is on strategic planning since the process of enriching strength can't be made possible within a couple of days. The foreign leading commercial banks, airways, consultants, tourist organisations, hotels, educational institutions, hospitals and many other service generating organisations assign an overriding priority to the capacity planning which make them efficacious enough in facing the multi-dimensional threats and challenges in the markets.

The aforesaid facts make it clear that the formulation of an action plan is essential to march ahead in the right direction of late; the leading service generating organisations have been found making concerted efforts to manage information with the help of sophisticated information technologies which make possible more sensitivity in their decisions. They forecast the problems, the needs and requirements, the intensity of competition and formulate such a service mix which is of world class, of course, strong enough in excelling competition, increasing the market share, establishing the leadership and dominating the business world. In the Indian perspective, it is much more impact generating that the service generating organisations promotes the use of sophisticated information technologies for improving the quality of their decisions. A decision related to the supply side is found based on the demand side. There are a number of factors to supply side is found based on the demand side. There are a number of factors to influence the process of demand generation and the service generating organisation have to switch on the process by innovating the promotional measures since the other factors found of uncontrollable nature are not within their control. The quality of marketing mixes influences the sensitivity of marketing decisions and the formulation of a sound marketing mix is not possible unless you identify the errors and intensify corrective measures much earlier than the side effects start troubling you.

The professionals bear the responsibility of matching the offerings to the market demand. The matching of demand and supply optimally is a difficult task that requires excellence. There are a number of factors to be taken into consideration.

➢ The task of predicting the behaviour of users is found critical since a number of factors influence the same. The emerging trends in the environmental conditions influence our behavioural profile and a majority of them are found of uncontrollable nature. The fluctuating trends in the money and stock markets govern the behaviour of investors and the deteriorating law and order conditions influence the traveling plan of tourists.

➢ Unavailability of sufficient lead-time is also an important factor making the task difficult to the professionals and the decision is so quick that the professionals find themselves helpless.

➢ In the process of the utilization of available capacity are the smaller production / assembly / packaging cause wastage. The nursing services make it clear.

➢ Higher annoyance is expected due to the lack of alternatives. If the users fail in getting the services on time, the level of dissatisfaction is found at its peak. The users/customers using the services of airways are found annoyed if the flights are delayed or the time schedule is not maintained.

➢ The cost on account of round-the-clock services affects the benefit relationship for extraordinary setting of performance standards.

The aforesaid complexities, of course, make the task of optimizing the demand and supply difficult.

6.8 MEASURES TO RESPOND TO CHANGES IN DEMAND

The price the company charges will be somewhere between one that is too low to produce a profit and one that is too high to produce any demand. Product costs set a floor for the price and consumer perceptions of its value set the ceiling. The firm must consider competitors prices and other external and internal factors to find the best price between these two extremes. Firms set prices by selecting a general pricing approach that includes one or more of these sets of factors. The following approaches are used:

6.8.1 COST-BASED APPROACH

The simplest pricing method is cost-plus or markup pricing - adding a standard markup to the cost of the product. Markups vary greatly among different goods. Cost as a percentage of selling price is a commonly used pricing technique is the restaurant industry. For example, a soft drink may cost Rs.10 is sold for Rs.20 in a upscale restaurant at a 100 percent markup on cost. Markups are generally higher on seasonal items (to cover the risk of not selling) and on specialty items, slower moving items, items with inelastic demand. It must be noted that any pricing method that ignores current demand and competition is not likely to lead to the best price. Hence markup pricing only works if that price actually brings in the expected level of sales.

Advantages:

(1) It covers all the costs

(2) It is designed to provide the target rate of margin

(3) It is generally a rational and widely accepted method

(4) It is an easy to comprehend and simple method

Disadvantages:

(1) The cost calculations are based on a predetermined level of activity. If the actual level of activity varies from this estimated level, the costs may vary, rendering this method unrealistic.

(2) If the costs of the firm are higher than its competitors, this method would render the firm passive in relation to price.

(3) Another drawback is that sometimes the opportunity to charge a high price is foregone.

(4) It ignores the price elasticity of demand.

(5) The cost-based pricing would not be helpful for some of the objectives or tasks like market penetration, fighting competition and so on.

(6) It imparts an in-built inflexibility to pricing decisions.

6.8.2 VALUE-BASED APPROACH

This approach uses the buyers perceptions of value, not the seller's cost, as the key to pricing. The non-price variables in the marketing mix are used to build perceived value in the buyer's minds and set price to match the perceived value. Any firm using perceived-value pricing must learn the value in the buyers minds for different competitive offers. Using a technique called trade-off analysis (to identify those service features that add more value than they cost), the customer's willingness to pay for a service can be determined. If the seller charges more than the buyer's perceived value, its sales will suffer. Many firms overprice their products, resulting in poor sales. Other firms underprice. Underpriced products sell well, but they produce less revenue than they would if the firm raised its price to the perceived-value level.

When consumers discuss value, they may use the term in different ways. What constitutes value may be highly personal and hence vary from one customer to another. **Zeithaml and Bitner** (1996) categorize value as follows and describe the pricing approaches that are suited to these value definitions:

1. **Value is low price** – When monetary price is the most important determinant of value to a customer, the firm focuses mainly on price. The appropriate pricing approaches are:

a. **Discounting** – To communicate to price-sensitive buyers that they are receiving value, service firms offer discounts or price cuts.

b. **Odd pricing** – To make buyers perceive that they are getting a lower price, the services are priced just below the exact/round amount (i.e. Rs.99 instead of Rs.100)

c. **Synchro-pricing** – It is the use of price to manage demand for a service by using customer sensitivity to prices. (For example, Internet service providers charge for the connection time during the day when the demand is peak and offer it free during the night when the demand is less).

d. **Penetration pricing** – New services are introduced at low prices to stimulate trial and widespread use. For example, a mobile phone service provider may offer a new feature such as Voice sms at a low introductory price for quick penetration.

2. **Value is whatever I want in a product or service** – When the customer is concerned principally with the get components of a service, monetary price is not of primary concern. The service is valued by the desirable intrinsic attributes it possesses and priced accordingly. The appropriate pricing approaches are:

a. **Prestige pricing** – It is used by service firms who offer high quality or status services. Customers of these firms actually value the high price because it represents prestige or a quality image. For example, consider a Golf club membership.

b. **Skimming pricing** – This is a strategy in which new services are introduced at high prices with large promotional expenditures. Many customers are more concerned about obtaining the service than about the cost of the service.

3. **Value is the quality I get for the price I pay** – When the customer primarily considers quality and monetary price, the task of the marketer is to understand what quality' means to the customer and then to match quality level with price level. The appropriate pricing approaches are:

a. **Value pricing** – In the current usage, it involves assembling a bundle of services that are desirable to a wide group of customers and then pricing them lower than they would cost alone. For example, many fast food restaurants offer a value meal consisting of many items in the menu. It represents giving more for less.

b. **Market segmentation pricing** – A service marketer charges different prices to groups of customers for what are perceived to be different quality levels of service, even though there may not be corresponding differences in the costs of providing the services to each of these groups. For example, there may a differential pricing for members and non-members in a health club.

4. **Value is what I get for what I give** – When the customer considers all that he/she gets for a given price, including the accompanying products, the consumption context and the consumption result, the service marketer may consider the following approaches to arrive at the final price:

   a. **Price framing** – Because many customers do not possess accurate reference prices for services, service marketers are more likely than product marketers to organize the price information for customers so they know how to view it. Marketers provide a price anchor. If the customers accept the anchor, they view the price and service package favorably.

   b. **Price bundling** – Some services are consumed more effectively in conjunction with other services. When customers find value in a package of services that are inter-related, price bundling (that is, pricing and selling services as a group rather than individually) is an appropriate strategy.

   c. **Complementary pricing** – Services that are highly inter-related can be leveraged by using complementary pricing tactics such as captive pricing, two-part pricing and loss leadership. In captive pricing, the firm offers a base service or product and then provides the supplies or peripheral services needed to continue using the service. In two-part pricing, the service price is broken into a fixed fee plus variable usage fees. In loss leadership, a familiar service is priced low to attract customers and then other services available at higher prices are revealed.

   d. **Results-based pricing** – In service industries (such as legal consulting) in which outcome is very important but uncertainty is high, the most relevant aspect of value is the result or the outcome of the service. Pay-for-performance models are gaining popularity in pricing the services of an ad agency. Money-back guarantees are another example for this pricing tactic.

6.8.3   COMPETITION-BASED APPROACH

Competition-based pricing approach may take the form of going-rate pricing or sealed-bid pricing. In going-rate pricing, the firm bases its price largely on competitors prices, with less attention paid to its own cost or to demand. In oligopolistic industries (where there are a few large service providers), firms normally charge the same price. It is a popular pricing method. When demand elasticity is hard to measure, firms feel the going price represents the collective wisdom of the industry concerning the price that will yield a fair return. Competition-based pricing is also used when firms bid for jobs. Using sealed-bid pricing, a firm bases its price on how it thinks competitors will price rather than on its own costs or on the demand. The firm wants to win a contract and winning the contract requires pricing lower than other firms. Yet, the firm cannot set its price below a certain level. It cannot price below cost without hurting its position.

In contrast, the higher the firm sets its price above its costs, the less its chance of getting the contract. Many firms follow the dominant competitors, particularly the price leader, in setting the price.

Advantages: The main advantages of this method are:

(1) It is a very simple method

(2) It follows the main market trend

(3) It has relevance to the competitive standing of the firm

(4) Holding to the going price will prevent harmful price wars

Disadvantages: The major disadvantages and limitations of following competitors are:

(1) Sometimes the competitor may initiate price change for wrong reasons

(2) The cost factors of the follower may not be similar to that of the competitors

(3) The pricing objective of the firm could be different from that of the competitors

(4) If the competitor's price decisions are unrealistic, the follower will also be going wrong on the price

6.9 RESTRUCTURING DEMAND USING EFFECTIVE PRICING

After developing their price structures and strategies, service firms may face occasions when they want to cut or raise prices. The following situations may arise:

➢ **Initiating price cuts** – Reasons for a firm to cut price are excess capacity, unable to increase business through promotional efforts, service efficiency improvement, follow-the-leader pricing and to dominate the market

➢ **Initiating price increases** – Reasons for a company to increase price are cost inflation or excess demand

➢ **Buyer reactions to price changes** –Buyers will associate price with quality when evaluating services they have not experienced directly. They use it as a simple heuristic to judge.

➢ **Competitor reactions to price changes** – Competitors are most likely to react when the number of firms involved is small, when the service is similar and when buyers are well informed.

➢ **Responding to price changes** – While reacting to competitor's price changes, the issues to consider are: Why did the competitor change the price? Is it going to be temporary or permanent? Are other competitors going to respond and what are their likely responses? Of course, the firm must consider its own position and the possible customer reactions to price changes.

6.10 SUMMARY

Much of the success of the firm depends on the pricing decisions of its products. Services marketers are operating in a bit more challenging environment than the marketers of tangible products. The challenges in the service environment are obviously because of the attributes of the services.

Understanding the impact of fluctuations of demand on prospects of sales and revenue is often the most pressing strategic consideration for the marketer of a service. The marketer carefully analyses the historical variations in demand and attempts to forecast the future trends so as to create the optimal capacity build up for its firm. The capacity planning is a cost intensive decision that creates liability on one hand but opportunity on the other to maximize earnings given a matching increase in demand.

The next thing is to adopt pricing as a measure to manage fluctuations in demand. Several pricing bases are being used by marketers of services. The simplest pricing method is cost-plus or markup pricing - adding a standard markup to the cost of the product. Marketers often resort to set price to match the perceived value of the services which is called as value based pricing. Sometimes matching the already existing competitors pricing slab in the form of going-rate pricing or sealed-bid pricing is also considered a good strategy.

Marketers do differ in their approaches on the issue of pricing decisions depending on the objective they carry. some examples of such approaches include, Discounting, Odd pricing, Synchro-pricing, Penetration pricing, Prestige pricing, Skimming pricing, Value pricing, Market segmentation pricing, Price framing, Price bundling, Complementary pricing and Results-based pricing.

6.11 SELF-ASSESSMENT QUESTIONS

1. What is the pricing of services? Discuss it.

2. What are the factors involved in pricing of a service product?

3. Discuss demand variation in respect of pricing of services.

4. Describe the capacity constraints with suitable examples.

5. What do you understand by capacity planning? Explain it.

6. What are the advantages and disadvantages of cost-based approach?

7. Describe advantages and disadvantages of value-based approach.

8. Discuss the pricing approaches according to Zeithaml and Bitner value definitions:

9. What are the advantages and disadvantages of competition-based approach?

10. What are the measures to respond to changes in demand? Discuss it.

11. Elaborate the restructuring demand using effective pricing of a service product.

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UNIT-07   SERVICE PROMOTION

UNIT FRAMEWORK

7.1   OBJECTIVES

After completing this unit you will be able to:

- ➢ to explain the service promotion
- ➢ to elaborate service promotion mix
- ➢ to know the promotion objective for services
- ➢ to examine the managing the integrated services communication mix
- ➢ to discuss the importance of services communication mix.

7.2   INTRODUCTION

Markets are flooded with large amount of products and services of various manufacturers and service providers. It is difficult for customers to understand which product and service is best to satisfy their needs and wants unless and until the marketers educate them about their products and distinguish them from others. In a real world usually many firms compete simultaneously with each other to grab the attention of the customers and given that the marketing communication is not a one-time affair it is a continuous/ repetitive process involving various media and messages. Therefore if customers have access to several similar messages they become confused. It is the responsibility of the marketers to make their efforts effective. An effective communication is one that matches the customer's expectations well, has uniformity across various campaigns, media and measures. The effectiveness and the utility of marketing communication or promotion lies in their informative, persuasive and influencing role. Effective Marketing Communication is a key to success in highly competitive environment particularly

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for marketing of services since it is very hard to differentiate services of various competitors when compared to a tangible product.

Depending upon the target segment, opportunities and objectives, there are various options available to marketers to promote their products. Every measure taken and the media selected offers its unique set of challenges and opportunities for the marketer. Marketing communications is rather a bundle of strategies that determine the composition and character of promotion efforts of a firm, collectively they are often called as promotion mix and contain various elements.

7.3   SERVICE PROMOTION

Modern marketing calls for more than developing a good product, pricing it attractively and making it available to target customers. The whole marketing mix must be integrated to deliver a consistent image and strategic positioning. Firms must communicate continuously with their present and potential customers. Every firm is inevitably cast into the role of communicator and promoter.

Promotion is the function of informing, persuading and influencing the consumer's purchase decision. Consumers receive marketing communications messages that deal with buyer-seller relationships from a variety of media, including television, magazines and the Internet. Marketers can broadcast an ad on television network to mass markets or design a customized direct-mail appeal targeted to a small market segment (even a segment of one customer!). Each message the consumer receives from any source represents the brand or firm. Unless a firm coordinates all these messages, the consumer can become confused and may entirely tune out the message. To prevent this loss of attention, marketers are turning to integrated marketing communications (IMC) which coordinate all promotional activities to produce a unified, customer-focused promotional message.

7.4   SERVICE PROMOTION MIX

A firm's total marketing communications program, called its promotion mix, consists of a specific blend of advertising, sales promotion, public relations and personal selling to achieve advertising and marketing objectives. The five major promotional tools are:

7.4.1   ADVERTISING

Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor

Advantages

1.   Reaches a large group of potential consumers for a relatively low price per exposure

2.   Allows strict control over the final message

3.   Can be adapted to either mass audiences or specific audience segments

Disadvantages

1. Does not permit totally accurate measurement of results

2. Usually cannot close sales

7.4.2 SALES PROMOTION

Short-term incentives to encourage the purchase or sales of a product or service

Advantages

1. Produces an immediate consumer response

2. Attracts attention and creates product awareness

3. Allows easy measurement of results

4. Provides short-term sales increases

Disadvantages

1. Is non-personal in nature

2. Is difficult to differentiate from competitors efforts

7.4.3 PUBLIC RELATIONS

Building good relations with the firm's various publics by obtaining favourable publicity, developing a good corporate image, and handling or heading off unfavourable rumours, stories and events.

Advantages

1. Creates a positive attitude toward a brand or firm

2. Enhances credibility of a brand or firm

Disadvantages

1. May not permit accurate measurement of effect on sales

2. Involves much effort directed toward non-marketing oriented goals

7.4.4 PERSONAL SELLING

Oral presentation in a conversation with one or more prospective buyers for the purpose of making sales.

Advantages

1. Permits measurement of effectiveness

2. Elicits an immediate response

3. Tailors the message to fit the customer

Disadvantages

1. Relies almost exclusively upon the ability of the salesperson

2. Involves high cost per contact

7.4.5   DIRECT MARKETING

The use of direct communication to a consumer designed to generate a response in the form of an order (direct order); a request for further information (lead generation); or a visit to a place of business to purchase specific goods/services (traffic generation).

Advantages

1.   Generates an immediate response

2.   Covers a wide audience with targeted advertising

3.   Allows complete, customized, personal message

4.   Produces measurable results

Disadvantages

1.   Suffers from image problem

2.   Involves a high cost per reader

3.   Depends on the quality and accuracy of mailing lists

4.   May annoy consumers

7.5   PROMOTION OBJECTIVE FOR SERVICES

These four types of promotion are the traditional marketer-dominated ways of influencing sales for service products. Between them they offer the organization a wide range of possibilities for promoting services in the marketplace. Astutely used they can be most effective tools of communication and influence.

(a)   **Advertising** – defined as any paid form of non-personal presentation and promotion of services by an identified individual or organization.

(b)   **Personal selling** – defined as the personal presentation of services in a conversation with one or more prospective purchasers for the purpose of making sales.

(c)   **Publicity** -defined as the non-personal stimulation of demand for a service by obtaining commercially significant news about it in any medium or obtaining favourable presentation of it in any medium that is not paid for by the service sponsor.

(d)   **Sales promotion** – marketing activities other than advertising, personal selling or publicity that stimulate customer purchasing and use and enhance dealer effectiveness (e.g. competitions, coupons).

However two important qualifications should be noted. First, service organizations promote themselves and their service products in other ways than the four forms considered here.

Second, there is increasing research evidence that in some kinds of services markets these marketer dominated ways of influencing sales for service products may not necessarily be the most effective. For example, a study covering eight different types of retail services (dry cleaning, hairdressing, car loan finance, dentistry, photography, carpet shampoo, car repair, gynecological services) showed that customers of retail services do not reply on the more traditional information sources.

Instead, they prefer to use more personal sources of information from friends and other contacts. Also location is a key factor in the final purchase decision. The importance of personal recommendations has been confirmed in the life insurance market too. Customers in this market have been shown to rely heavily on the opinions and influences of others through word of mouth communication.

PROMOTIONAL OBJECTIVES OF SERVICES MARKETING:

The general purposes of promotion in services marketing are much the same as in other kinds of marketing to:

➢ Build awareness and interest in the service product and the service organization;

➢ Differentiate the service offer and the service organization from competitors;

➢ Communicate and portray the benefits of the services available;

➢ Build and maintain the overall image and reputation of the service organization;

➢ Persuade customers to buy or use the service.

Ultimately the purpose of any promotional effort is to sell the service product through informing, persuading and reminding. Clearly these general objectives vary according to the nature of each service industry and service product. For example, the kinds of promotional objectives that are considered to be relevant in the transport and distribution business include:

1. Creating awareness of the firm's service among potential users;

2. Generating detailed knowledge of the firm's product and service including details of cost- benefit relationship, price and other pertinent information;

3. improving the firm's image among existing and potential users so as to improve the firm's target group towards being more receptive to the new service which will be launched in the near future;

4. Eliminating perceived misconceptions;

5. Advising existing and potential customers of special offers or modifications of the service;

6. Advising the marketplace of new channels.

Clearly the specific objective for any particular service in any service

product/market situation will vary. So too will use made of the elements of the promotion mix.

7.6 MANAGING THE INTEGRATED SERVICES COMMUNICATION MIX

To match service delivery with service promises, the following strategies are recommended: manage service promises, manage customer expectations, improve customer education and manage internal marketing communications.

7.6.1 MANAGE SERVICE PROMISES

In manufacturing physical goods, the departments that make promises and those that deliver them can operate independently. In services, however, the sales and marketing departments make promises about what employees in the organizations will fulfill. Because what employees do cannot be standardized like physical goods produced mechanically, greater coordination and management of promises are required. Successful services advertising and personal selling becomes the responsibility of both marketing and operations. Intangibility makes services advertising different from product advertising and difficult for marketers. The intangible nature of services creates problems for consumers both before and after purchase. Mittal (1999) has suggested services advertising strategies to overcome the challenges posed by the intangible nature of services. Service marketers have developed the following guidelines for service advertising effectiveness:

➢ Use narratives to demonstrate the service experience

➢ Present vivid information

➢ Use interactive imagery

➢ Focus on the tangibles

➢ Feature service employees in communication

➢ Promise what is possible

➢ Encourage word-of-mouth (WOM) communication

➢ Feature service customers

➢ Use transformational advertising

7.6.2 MANAGE CUSTOMER EXPECTATIONS

Many service firms find themselves in the position of having to tell customers that services previously provided will be discontinued or available only at a higher price. Here are four strategies for a service firm to gracefully give the customer news about what to expect.

- One way to reset expectations is to give the customer options for any aspects of service that are meaningful, such as time and cost. With the choice, clients can select that aspect of the trade-off (time or money) that is most meaningful to them. Making the choice solidifies the client's expectations of service.

- Product companies are accustomed to offering different versions of their products with prices commensurate with the value customers perceive. This type of formal bundling and pricing can be accomplished in services, with the extra benefit of managing expectations.

- A service provider can educate the customer the criteria by which to evaluate the service. The provider who does this in a credible manner will have an advantage in shaping the evaluation process.

- Service providers must learn to present their offerings in terms of value and not on price alone. Such a value centered negotiation can lead to more realistic expectations in the mind of the customer.

7.6.3   IMPROVE CUSTOMER EDUCATION

The nature of services demands that customers perform their roles properly for many services to be effective. If the customer forgets to perform this role, or performs it improperly, disappointment may result. For this reason, communication to customers can take the form of customer education. The following customer education approaches can help match promises with delivery:

- Prepare customers for the service process
- Confirm performance to standards and expectations
- Clarify expectations after the sale
- Teach customers to avoid peak demand periods and seek slow demand periods

7.6.4   MANAGE INTERNAL MARKETING COMMUNICATION

Internal marketing communications can be both vertical and horizontal. Vertical communications are either downward (from management to employees) or upward (from employees to management). Horizontal communications are those across functional boundaries in an organization. Firms must give customer contact employees the information, tools and skills to perform successful interactive marketing through downward communication. Upward communication is also necessary in closing the gap between service promises and service delivery. Having an open upward communication can prevent service problems before they occur and minimize them when they do occur. Horizontal communication must be facilitated to coordinate efforts for service delivery. It is important to open channels of communication between marketing and operations personnel for the potential for conflict between these two is high. The back-office and support personnel typically do not interact directly with external customers. Still they can be aligned with external customers through mechanisms like interaction and also by creating cross-functional teams.

7.7 IMPORTANCE OF SERVICES COMMUNICATION MIX

The role of communication in service marketing is extremely vital. With good communication skills it will be very easy to sell your services to your potential customers even do they have someone doing it for them they can step switch to your side depending your power of communication, good communication can make a customer loyal to you for life time they will spend on earth, sometimes many people will say my service is better than the other person people patronized his or her services, the question now is how good is your communication with your potential client, first approach matter in everything some client make enquiries for future needs while some make enquiries for immediate need, many people who render service always respond rudely to potential client once they discover they are making enquiries for future needs which at the end make them have low customer turnout.

The **key differences** between products and services should be taken into account in considering service communication as follows:

1. **Simultaneous production and consumption:** The layout, shop facia, and the appearance and manner of the staff are critical communication variables.

2. **Intangibility:** Service providers should attempt to reduce the risk to the consumer of buying an intangible product by providing tangible clues about the service offering. These clues come from all aspects of corporate communication.

3. **Heterogeneity:** This, too, leads to greater perceived risk. Again communications can help to reduce this factor. It may be appropriate to communicate a service guarantee or promise or to demonstrate how well-trained your staff are.

4. **Perishability:** Many promotional tools, e.g. advertising, sales promotion, and direct marketing, have a role to play in shaping demand. This is one of the most challenging aspects of service management and arises from the fact that services cannot be inventoried.

There are **five key aspects of communication** for the service marketer:

(i) The role of personal selling

(ii) The targeting of employees in external communications

(iii) The management of expectations

(iv) The provision of tangible clues

(v) Word-of-mouth communications

TARGET AUDIENCE:

The target audience of a communication must be clearly defined and this can be done in a number of ways:

(a) The most traditional method of defining audiences is in terms of social, economic, demographic and geographical characteristics. In this way, audiences are characterized using parameters such as age, sex, social class, area of residence, etc.

(b) Audience can be defined in terms of the level of involvement of potential recipients of the communication. For example, a distinction can be made between those people who are merely aware of the existence of a service, those who are interested in possibly purchasing it and those who wish to purchase the service.

(c) An audience can be identified on the basis of target customer's usage frequency (for example, regular users of an airline are likely to respond to communications in a way different from occasional users).

(d) Similarly, audiences can differ in the benefits they seek from a category of service. Railways aim different messages at leisure users who may seek benefits such as meeting distant friends, compared to business users for whom speed and reliability may be of greatest importance.

(e) In the case of services supplied to corporate buyers, audiences can be defined in terms of the type and size of business and its geographical location. More importantly, the key decision makers and influencers must be identified and used in identifying the audience. For example, for many corporate travel services, secretaries can be important in choosing between competing services rather than the actual service user, and therefore be included in a definition of the target audience.

7.8   SUMMARY

Promotion or communication mix is a combination of tools used by marketers to communicate the distinguishing features and benefits of their products or services pitted against the customer's needs and wants. Various elements in the promotion mix are advertising, personal selling, publicity, sales promotion and direct marketing. Advertising is a paid form of non-personal presentation and promotion of services by an identified individual or organisation sponsored by the marketer whereas, public relations or publicity is all about obtaining a piece of commercially favourable, significant news in any media such as an article related to the product offering in a newspaper or magazine without consideration for payment. Personal selling is one to one presentation of service with one or more prospective purchase with the intent of making a sale. Sales promotion is an incentive used to boost short term sales. It can be directed at consumer or intermediaries. Every promotional tool has its own advantages and challenges. Every promotional tool has its own advantages and challenges. Direct marketing is one to one communication with customers through a direct channel without using any intermediaries.

Communication can take many forms, like verbal, visual or symbolic, and convey special meaning that the marketers want to pass to the consumers. Communications can evoke emotions that put consumers in more receptive

frames of mind, and it can encourage purchases that help consumers solve problems or avoid negative outcomes. In short, marketing communication is the bridge between marketers and consumers, and between consumers and their socio-cultural environments.

Marketing communication can be used to communicate with service employees as well as with external customers. Internal communication from senior managers to their employees play a vital role in maintaining and nurturing a corporate culture founded on specific service values. It may also be needed to nurture team spirit and support common corporate goals.

7.9 SELF-ASSESSMENT QUESTIONS

1. Define service promotion. Explain it with examples.

2. Describe the service promotion mix.

3. What are the major promotional tools of service promotion mix?

4. What are the promotion objectives for services? Explain it.

5. How are managing the integrated services communication mix?

6. Elaborate the importance of services communication mix.

7. What should be taken into account in considering service communication?

8. What is target audience in communication of services?

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UNIT-08 PERSONAL SELLING

UNIT FRAMEWORK

8.1 OBJECTIVES

After completing this unit you will be able to:

- ➤ to explain the personal selling

- ➤ to elaborate types of personal selling

- ➤ to know the advertising promotion: advantages and disadvantages

- ➤ to examine the sales promotion: advantages and disadvantages

- ➤ to discuss the role of relationship marketing in promoting services.

8.2 INTRODUCTION

Personal selling happens when companies and business firms send out their salesmen to use the sale force and sell the products and services by meeting the consumer face to face. Here, the producers promote their products, the attitude of the product, appearance and specialist product knowledge with the help of their agents. They aim to inform and encourage the customer to buy, or at least trial the product.

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Advertising and promotions is bringing a service to the attention of potential and current customers. Advertising and promotions are best carried out by implementing advertising and promotions plan. The goals of the plan should depend very much on the overall goals and strategies of the organization, and the results of the marketing analysis, including the positioning statement (these are described more in the topic of Marketing).

Sales promotion is one level or type of marketing aimed either at the consumer or at the distribution channel (in the form of sales-incentives). It is used to introduce new product, clear out inventories, attract traffic, and to lift sales temporarily. It is more closely associated with the marketing of products than of services.

Business pundits and academic students of business have developed almost fancifully sophisticated views of sales promotion. In down-to-earth terms it is a way of lifting sales temporarily by appealing to economic motives and impulse-buying behavior. The chief tools of sales promotion are discounts ("sales"), distribution of samples and coupons, the holding of sweepstakes and contests, special store displays, and offering premiums and rebates. All of these techniques require some kind of communication.

8.3 PERSONAL SELLING

Personal selling has a vital role in service making as a large number of service businesses involve personal interaction between the service provider and the customer, and service is provided by a person, not a machine. The problem with using personal selling to promote services is that the service cannot be separated from the performer. Moreover, it is not a homogeneous service in which exact standards of performance can be specified. In such situations, personal selling implies using an actual professional rather than a salesman to sell the service. A firm of management consultants may send one of its consultants for soliciting new business. This kind of personal selling is certainly effective but also very expensive. One way of making personal selling more cost effective is to create a derived demand by tying up with associated products and services. A management consultant may associate with a bank, so that the bank recommends his name as a consultant to any new entrepreneur coming for a loan. A chain of hotels may team up with an airline to offer a concessional package tour. The other way is to maintain a high visibility in professional and social organisations, getting involved in community affairs and cultivating other professionals so as to maximize personal exposure and the opportunities for getting work from new sources. Personal selling has a number of advantages over other promotion mix elements, such as, Personal contact- Three customer contact functions have been identified; selling, servicing and monitoring. These personal contacts should be managed to ensure that the customer's satisfaction is increased or maintained at a high level.

Relationship enhancement-The frequent and sometimes intimate contact in many service businesses provides a great opportunity to enhance the relationship between the seller/ service provider and the customer.

Cross selling-The close contact frequently provides the opportunity for cross-selling other services. The sales persons are also in a good position to communicate details of other services which they may offer to customers.

Advantages of Personal Selling

➢ It is a two-way communication. So the selling agent can get instant feedback from the prospective buyer. If it is not according to plan he can even adjust his approach accordingly.

➢ Since it is an interactive form of selling, it helps build trust with the customer. When you are selling high-value products like cars, it is important that the customer trusts not only the product but the seller also. This is possible in personal selling.

➢ It also is a more persuasiveform of marketing. Since the customer is face to face with the salesperson it is not easy to dismiss them. The customer at least makes an effort to listen.

➢ Finally, direct selling helps reach the audience that we cannot reach in any other form. There are sometimes customers that cannot be reached by any other method.

Disadvantages of Personal Selling

➢ It is a relatively expensive method of selling. High capital costs are required.

➢ Also, it is an extremely labour intensive method. A large sales force is required to carry out personal selling successfully.

➢ The training of the salesperson is also a very time consuming and costly.

➢ And the method can only reach a limited number of people. Unlike TV or Radio ads it does not cover s huge demographic.

8.4   TYPES OF PERSONAL SELLING

Personal selling is where businesses use people (the "sales force") to sell the product after meeting face-to-face with the customer. The sellers promote the product through their attitude, appearance and specialist product knowledge. They aim to inform and encourage the customer to buy, or at least trial the product. A good example of personal selling is found in department stores on the perfume and cosmetic counters. A customer can get advice on how to apply the product and can try different products. Products with relatively high prices, or with complex features, are often sold using personal selling. Great examples include cars, office equipment (e.g. photocopiers) and many products that are sold by businesses to other industrial customers.

Some sales pitches are entirely scripted while others are only partially scripted allowing the individual sales representatives the flexibility to vary the presentation according to their assessment of the client's needs and interests. However, most effective sales representatives develop scripts for handling common objections and almost always have a number of different trial closes at hand.

There are three broad types of sales script:

1. **Prescribed scripts:** Prescribed scripts are highly detailed scripts which specify precise phrases to be used in given situations. Prescribed scripts are widely used in a variety of contexts including direct selling, market research, and fast food service.

   The main advantages of prescribed scripts are:

   ➤ can enable speedy transactions

   ➤ provides uniform delivery.

   The main disadvantages of a prescribed script are:

   ➤ tendency for the delivery to become robotic and lacking in authenticity

2. **Goal-driven scripts:** Goal driven scripts are more flexible. These types of script define the goals for each type of transaction and allow employees to use their own phrases during the encounter. Provided that employees have a clear picture of the goals and purpose, goal-driven scripts can appear more natural and authentic. However the use of goal-driven scripts requires employees with well-developed communication skills.

3. **Hybrid approach:** The hybrid approach offers a choice within a range of scripts. This approach is neither prescribed nor totally flexible. It provides a range of scripts from which employees select an option with which they feel comfortable.

Types of Personal Selling For New Product

(a) **Retail Selling:** In retail selling, the salesperson communicates directly with individual customers. He/she sells product to the consumers through retail store or door to door visit. The sales person, selling goods and services from the retail store, deal with the customers visiting the sorters. In door to door selling, the sales person visits door to door to search potential customers and persuade them to buy the product.

(b) **Business-to-Business Selling:** In business-to-business selling, the salesperson sells products to industrial buyers. It involves the sales of equipment, plants & machineries etc. to the industrial buyer. The industrial sales person should be well trained and good technical knowledge about the products he/she sells.

(c) **Trade Selling:** In trade selling, the salesperson sells products to marketing intermediaries such as retailers and wholesalers. Trade sales person should contact regularly with the wholesaler and retailers to receive bulk order from them.

Personal selling is most useful for a new product due to following reasons:

➤ Customer do not easily accept new product and the personal selling is most important to convince them to buy the product.

➤ Many non-personal forms of promotion, such as a radio advertisement, are inflexible, at least in the short-term, and cannot be easily adjusted to

address audience questions therefore personal selling is best of collect and handle customers' feedback regarding new product.

➢ Personal selling is the most practical promotional option for reaching customers who are not easily reached through other methods.

8.5   ADVERTISING PROMOTION

Service firms have several means of promoting their offerings. Advertising, sales promotion, and personal selling are the major components. Since services are experiential in nature, promoting a service is more complex than promoting a good. For example, on promoting a particular brand of automobile an advertiser can discuss gas mileage, style, comfort, and other physical dimensions. But if an attorney wants to promote his or her services, what should be advertised? There are no tangible characteristics that can be discussed. Instead, the advertiser must use intangible cues and thoughts to convey a message. It is now established that there are clear differences in information usage between goods and services. First, the difference is that consumers of services are less likely to purchase without information than those of goods. Second, the consumer of services will prefer personal sources to impersonal sources of information. And third, the basic characteristics of services have implications for communication strategy. For example, in hospitality industry, the intangible service offer is made tangible and represented in the promotional material and; customers decide to buy or not to buy on the strength of the description and representation of the service offer in the promotional material. Advertising is a paid form of persuasive promotion. The creativity is found to be an essential aspect of advertising, which increases the importance of professional excellence in making the advertising processes productive. The professionals are supposed to take into consideration the following facts while advertising. This would help them in making possible creativity besides optimizing the advertisement budget.

Advertising Objectives:

Although, there could be a variety of objectives to promote or advertise the service, but the basic objectives of it are as follows:

➢ Make a strong impression of competency, honesty and sincerity (professional orientation to service transaction so as to win buyer's confidence in seller's abilities to deliver the service).

➢ Should be able to use indirect selling techniques (creating derived demand or act as a buying consultant).

➢ Manage to maintain a fine image by positive word of mouth.

➢ Packaging and customisation.

➢ Target Audience to be specified.

Planning For the Advertising: In the case of services a customer is buying the performance of the service personnel and therefore the advertising in service industries should not only restrict it to encourage consumption, but also it should encourage employees to perform well. The following six basic guidelines may help to design effective advertising programmes.

- ➤ The advertising should have positive effects on contact personnel. .
- ➤ It should capitalize on the word of mouth.
- ➤ It should provide tangible clues to the customers.
- ➤ It should make the service offering easily understood.
- ➤ It should contribute to the continuity.
- ➤ It should promise only what is possible.

Consumer Promotions in Service Marketing: A service provider can use six basic elements, namely, product scope, market scope, value, timing, identification of the beneficiary and protection against competition. It may be further suggested that unlike physical goods the variety of schemes available as consumer sales promotion schemes are highly limited. For example:

- ➤ Sampling cannot be used frequently because of the cost of service.
- ➤ Premiums are frequently used to give an element of tangibility.
- ➤ Price/Quantity promotion can help in generating long-term commitment from consumers, e.g., group rates for hotels.
- ➤ Coupons are not used much.
- ➤ Refunds and future discounts are also not much in practice.
- ➤ Prize promotions can be used effectively and add excitement and involvement.

8.6 ADVANTAGES AND DISADVANTAGES OF ADVERTISING PROMOTION

8.6.1 ADVANTAGES OF ADVERTISING PROMOTION

Advertising plays a major role in promoting a company's products and services on a large scale. However, developing advertising campaigns for services it is a difficult aspect because of the intangible properties services. The features:-

(1) Advertising is non-personal mass communication by an identified sponsor. This is a cost effective and powerful means to reach the masses.

(2) The cost per unit of (audience) of exposure is the lowest in advertising, when compared to other promotional approaches. It has the capacity to attract the market.

(3) Informative, educative and persuasive objectives can be achieved through advertising. Service firms use advertising for the achievement of the above mentioned objectives.

(4) As the most dominant form of communications in consumer marketing, advertising is often the first point of contact between service marketers and their customers, serving to build awareness, inform, persuade, and remind.

(5) It plays a vital role in providing factual information about services and educating customers about product features and capabilities.

(6) One of the challenges facing advertisers is how to get their messages noticed. TV and radio broadcasts are cluttered with commercials whereas newspapers and magazines sometimes seem to contain more ads than news and features.

(7) Longer, louder commercials and larger format ads are not necessarily the answers. Some advertisers stand out by using striking designs or a distinctively different format.

(8) A broad array of paid advertising media is available, including broadcast (TV and Radio), print (magazines and newspapers), movie theatres, and many types of outdoor media. Posters, Billboards, Electronic message boards and exterior of buses and autos.

(9) Some media are more focused those others, targeting specific geographic areas or audiences, with a popular interest. Advertising messages delivered through mass media are often reinforced by direct marketing tools, such as mailing, telemarketing, fax or e-mail.

(10) Service providers should involve front line employees in designing the advertising campaign as service personnel directly interact with customers during the process of selling and they would understand what appeals to them.

(11) A company's image is damaged if their services personnel are inefficient behave rudely, or are careless in dealing with customers.

(12) The word of mouth publicity is a powerful advertising tool or a company and its services. Service providers should therefore educate their employees on the importance of customer service and motivate them to perform better.

(13) The second aspect to consider is the variability in services are delivered differs from one company to another.

(14) Even if the service offering is the same due to the attitude, expertise and skills of service personnel involved in delivering the services, the actual delivery can be different.

8.6.2 DISADVANTAGES OF ADVERTISING PROMOTION

(1) **Higher prices:** Advertisements today involve huge expenditure thereby increasing the cost of distribution. Manufactures and traders charge higher prices from the consumers to cover up their cost.

(2) **Artificial living:** Advertising amplifies the need of people ad encourages wasteful consumption. It persuades people to buy which they do0 not need or cannot afford. People are even encouraged to buy products that are harmful for their health like cigarettes, alcohol etc.

(3) **Misleading:** Advertising is often deceptive and misguides consumers. Exaggerated and false claims are made in the advertisements. Bogus testimonials and other questionable means are used to sell goods. Here is

where the joint stock companies spend huge amounts on advertising to kill new and potential concerns.

(4) **Wastage of national resources:** Role of industries in Indian economy is incomparable. Manufacturers create trivial and artificial differences in the products to develop brand loyalty through advertising. The natural resources, capital requirements and labor that go into production amount to wastes as these could be better employed in the creation of new industries. Here, the public enterprises help the economy to save the natural resources as there is very less competition between the public enterprises.

(5) **Unethical:** Many advertisements are highly objectionable because they undermine values and ethics. Vulgar advertisements like that of Axe offend public decency and encourage materialism in the society. It is also shocking that the television ministers allow such advertisements to be published. It is definitely an example of Corruption in India. We should thank god that soon the Jan Lokpal bill will come into force.

(6) **Deferred Revenue Expenditure:** It is deferred revenue expenditure, as the results are not immediate. As advertising occupies a substantial portion of the total budget of the organisation. Hence, investing a large sum in it does not necessarily yield immediate results thus limiting its utility.

(7) **Misrepresentation of Facts:** A major drawback of advertising is misrepresentation of facts regarding products and services. Advertisers usually misrepresent unreal/false benefits of a product and make tall claims to excite people to indulge in actions leading to their benefit, but opposed to consumer's self-interest.

(8) **Consumer's Deficit:** Advertising creates desires as consumers have low purchasing power. It leads to discontentment. Such discontent is obviously not very desirable from the point of view of society, particularly if it affects a large majority of people. But it is important if it acts as a spur to social change.

(9) **Barriers to Entry:** Advertisements promote industrial concentration to a greater or lesser degree. The extent of such concentration may vary with the character of the individual trade, the advertise ability of the product and the technical conditions of its production. Although, studies on this subject are not conclusive. The evidence of positive association between advertising and concentration is weaker than can be expected.

(10) **Product Proliferation:** Critics state that advertising encourages unnecessary product proliferation. As it leads to the multiplication of products that are almost identical, resulting in wastage of resources which could otherwise have been used to produce other products.

(11) **Multiplication of Needs:** Advertising compels people to buy things they do not need as it is human instincts, to possess, to be recognized in the society, etc. are provoked by advertiser in order to sell products. At times, various types of appeals are advanced to arouse interest in the product. Sentiments and emotions are played with to gain customers.

8.7 SALES PROMOTION

Sales promotion is a variety of short-term incentive to encourage trial or purchase of a product or service. It's a key ingredient in marketing campaigns, and consists of a diverse collection of incentive tools, mostly short term, designed to stimulate quicker and / or greater purchase of particular products or services. Sales promotions are used to intensity a brand contact for customers or prospects, especially when these people are in buying or using situations. Although the primary object of the consumer sales promotion is to affect behavior, it can also heighten awareness and reinforce a brand's image. Where the decision process takes weeks or months sales promotion can be used to help move prospects and customers through the decision process. Consumer promotional offers provide tangible added value and are generally available for a 'limited time only' to create a sense of urgency, which marketers think speeds up the decision making process. Some marketers consider sales promotion supplement to advertising and personal selling because it can make both more effective.

In the case of services, the sales promotion techniques which are used are varied and various in number. Traditionally, sales promotion has been used mainly in the fast moving consumer goods market. However, in the recent past we have seen a trend for many service firms to use sales promotion. Sales promotion tools are aimed at these audiences:

➤ *Customers* -Free offers, samples, demonstrations, coupons, cash refunds, prizes, contests and warranties, early bird incentive etc.
➤ *Intermediaries*-Discounts, advertising allowances, cooperative advertising, distribution contests and awards.
➤ *Sales force*-Bonuses, awards, contests and prizes for best performer.

A number of activities can be undertaken which aim at providing incentive to encourage sales. A doctor may charge lesser amount as fee on subsequent visits to encourage patient's loyalty, a car mechanic may offer a guarantee for repairs undertaken upto three months, a chartered accountant may offer his services free for the first two visits to allow the customer to evaluate his work.

In services, sales promotion techniques are also used to offset their perishability characteristic, e.g., family discounts offered by hotels in off-season in which two children under twelve are allowed free of charge. Sales promotion helps to overcome the problem faced by customers in evaluating and judging the quality before making the purchase, thus, it reduces the risk associated with the purchase.

8.8 ADVANTAGES AND DISADVANTAGES OF SALES PROMOTION

ADVANTAGES OF SALES PROMOTION

Marketers can reap the following advantages from the implementation of appropriate sales promotion technique:

1. **Helps Create Awareness of New Products** – Sales promotion is a highly effective method for exposing customers and business partners to new products and for moving customers to take an action (e.g., sample a product).

2. **Goodwill:** Many sales promotion schemes directly or indirectly increase the Goodwill of a firm in the market due to Innovative sales promotion techniques. Sales promotion schemes keep name and brand product in the mind of people, which contribute to the Goodwill of the firm.

3. **Strengthens Customer Involvement and Loyalty** – Sales promotion can be the primary mechanism organizations use to interact with their customers and ultimately build a stronger connection (e.g., offer customer rewards).

4. **Can Be Quick to Develop** – Compared to other types of promotion, some sales promotions can be quickly created and made available within a market (e.g., creation and distribution of email coupon).

5. **Target Audience:** Sales promotion can be targeted on specific groups especially selected retailers and their customers. A manufacturer may apply area-specific Strategies for sales promotion.

6. **Used to Support Other Promotions** – Sales promotion is often used as a supporting feature of other methods of promotion (e.g., salespeople may give promotional items to give to sales prospects).

7. **Helps Reduce Inventory** – Sales promotion can be used to rapidly reduce inventory in situations where product replacement is needed (e.g., products nearing expiration date; clearing inventory to make room for new models).

DISADVANTAGES OF SALES PROMOTION

While the benefits of sales promotion are very attractive to a marketer's promotional plan, there are downsides to this type of promotion. These include:

1. **May Condition Customers to Wait for Promotion** – Repeated use of sales promotion may condition customers to wait until a product promotion is available before making their next purchase resulting in the marketer not maximizing a product's revenue potential (i.e., customer will not pay full price).

2. **Can Lower Perception of the Brand** – The overuse of some sales promotions may condition customers to believe the lower price is the regular price, which may cause them to not believe the product's quality compared to similar competitors' products that offer less frequent or no price reductions.

3. **Issues With Promotion Clutter** – While in the same way an advertisement competes with other ads for customers' attention, promotional clutter may also be an issue with sales promotions (e.g., excessive promotion sent by email, postal mail).

4. **Distributors May Not Be Willing to Accept** – Some sales promotions targeted to consumers require the assistance of distributors (e.g., retailers), however, not all distributors may accept a consumer sales promotion, especially if the promotion requires the distributor to perform extra work.

5. **Price Sensitivity:** Sales promotion can persuade users to expect a lower price in the future, and potentially damage 'quality'. It is a general tendency among buyers to anticipate more and more price reductions which are not good for long term reputation of the firm. The disadvantage of sales promotion though maybe the lack of effectiveness. There is the thing that only 16% of the Trade Promotion events were profitable, based on incremental sales of brands distributed through retailer warehouses. For many promotions, the cost of selling was 'greater' than the earning from the selling.

8.9 ROLE OF RELATIONSHIP MARKETING IN PROMOTING SERVICES

For several decades marketing theorists have drawn a clear difference between marketing and selling. Selling conjures up for us the image of a door-to-door peddler who tries to sell us something we don't want, and then gets out of town as quickly as possible. The marketing concept, on the other hand, teaches firms to earn a profit by selling what customers really want for a value that competitors can't match. The rationale for this second approach is two-fold: first, it assumes that the marketer represents a going concern with every intention of remaining in business in the same market. Second, it supposes a goal of satisfied customers who will be a source of repeat purchases and positive recommendations. In spite of this underlying concept, the focus of marketing education and marketing practice has been on the attraction of new customers through the use of the four P's (product, price, promotion/ communication, and place/distribution), rather than on the retention of current customers. Until recently, then, marketing efforts have been focused on 'creating exchanges' rather than managing long-term relationships with customers.

Developing a strong relationship marketing orientation is not without costs in terms of money, time, and effort. So, before a firm rushes out to establish stronger relationships with customers, it is better to identify the benefits that it is likely to realize. **Kotler** identified five different levels of relationship marketing at which a firm may choose to operate.

➢ **Basic-** No lasting relationship is really established. The transaction is made and both parties go their own ways.

➢ **Reactive-** The seller offers to respond if the buyer has any problems.

➢ **Accountable-** The seller contacts the buyer after the sale to find out how the product has been received and whether it could have been better.

➢ **Proactive-** The seller calls the customer from time to time with updates on improvements to the product and other services to make the product's consumption more satisfying.

> ➤ **Partnerships-** Both parties work together to find solutions to mutual problems and opportunities for mutual success. This arrangement is generally limited to business-to-business marketing.

8.10 SUMMARY

At the present time, marketing play a significant role to any business for rapid growth and to create in the industry. In gentlest way to viral your product or service is by using viral marketing strategy which is one of the newest and effective trend activities. While busy doing the marketing done, the organization must bring together the marketing activities to relate with customer relationship. It is also important to play marketing and customer relationship management together for stay in the industry for a long-term business.A business will not success if they not make a step up and plan for the better future. The marketing activities that are value customer feedback, regularly review, evaluate and enhance customer relationship marketing activities, build trust with the customers and offer customer rewards.

The detail literature review come to conclusion that both advertisement and sales promotion offers play significant role in firm growth, brand image and loyalty. It attracts people of different nature, cultures and income.Sales promotion influence consumers very easily and activate people to buy.

Advertising inform the people about new products its features and it comparative position with other products. It is also noticed that no brand, value of the money, innovation and consumer influence is possible without advertising. Advertising is very important tools and needs huge marketing budgets as compare to sales promotions but no doubts it impacts are long term as compare to sales promotion that according many scholars is useful for short term objectives.

To conclude, sales promotion is definitely a useful tool to include in the marketing mix of the companies. When applied correctly, it can result in financial benefits to retailers and manufacturers as well as increase the brand loyalty towards certain brands and products. Sales promotion plays a limited role in the buying behavior of consumers. Only a small percentage of the customers are attracted to such sales promotion and wait for it. Store loyalty may not play a role in sales promotion. Retail sales promotion has to depend on others factors to positively impact the buying behavior.

Relationship marketing focuses on long-term goals as opposed to short-term goals.Your short-term goals may consist of individual sales or customer acquisition rates.You can use relationship marketing to maintain your existing customers.As we outlined earlier, it's much less expensive to sell to your current customers than to find new customers.To establish a meaningful and long-term relationship with your customers, you need to add a personal touch to your marketing efforts.You can follow the step-by-step guide that we discussed to create a loyalty rewards program for your long-term customer retention strategy.

Loyalty programs prove to be an effective strategy across the globe.Effective communication is also an essential component to relationship marketing.Use email campaigns to communicate with your customers.You can

also take advantage of social media platforms to reach your loyal customers on a daily basis.Loyal customers give you free advertising through word of mouth. They also shop more frequently and spend more money on each transaction. You can't get these benefits without relationship marketing.

8.11 SELF-ASSESSMENT QUESTIONS

1. What do you understand by personal selling? Explain it.

2. What are the different types of personal selling? Discuss it.

3. Elaborate advertising promotion with suitable examples.

4. What are the advantages and disadvantages of advertising promotion?

5. Define sales promotion. What are the different techniques of the sales promotion?

6. What are the advantages and disadvantages of sales promotion?

7. Describe the role of relationship marketing in promoting services.

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Master of Business Administration

MBA-3.44
Industrial & Service Marketing

Uttar Pradesh Rajarshi Tandon Open University

BLOCK

3

QUALITY CONSIDERATIONS IN SERVICES

ETH-103 / ETH-085

[129]

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BLOCK INTRODUCTION

In **Block 3** you have learnt about the industrial & service marketing; customer satisfaction: monitoring and measuring, quality in services: concept and importance.

Unit 09 explains customer satisfaction; monitoring and measuring; understanding customer expectations; zone of tolerance and order taking and fulfillment.

Unit 10 discusses about customer satisfaction: service guarantee; defects; service failures; handling complaints and service recovery.

Unit 11 elaborate the quality in services; quality in services; concept and importance; service quality models and Gaps Model.

Unit 12 deals with service quality models; SERVQUAL Model or Parasuraman, Zeithaml, and Berry (PZB) Model; SERVPERF Model and Gronroos Model.

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UNIT-09 CUSTOMER SATISFACTION: MONITORING AND MEASURING

UNIT FRAMEWORK

9.1   OBJECTIVES

After completing this unit you will be able to:

➢   to explain the customer satisfaction: monitoring and measuring

➢   to understanding of the customer expectations

➢   to recognize the zone of tolerance;

➢   to examine the order taking and fulfillment

9.2   INTRODUCTION

Marketing firms strive to remain in business by keeping their customer base intact. Managers have to take several measures to keep their customers happy and satisfied. These measures include but are not limited to understanding the ever-changing preferences of the customers, improvise their services accordingly, ensuring standardization, quality checks and removal of defects etc. More importantly, the managers have to build strong relationships with the customers which involve understanding the expectations of customers and offering appropriate value to them through their services. This constitutes a huge exercise and involves consistent efforts in monitoring and measuring the customer's expectations and their zone of tolerance.

Since service quality depends much on the quality of service personnel. Even with the same set of people the quality of service may vary at a different instance of time. The managers need to understand to what extent the variations are acceptable and allowed given the taste and tolerance level of a specific customer. They need to assure customers about the kind of service promised and guarantee the customer on what they ought to get at a given price.

Often expectations of customers are not realistic, maybe because of the ambiguous marketing communications on the part of the marketers or inadvertently misunderstanding on the part of the customers themselves. Managers also have to run campaigns to educate the customers and rationalize their high expectations. In short, keeping a satisfied customer is a daunting task and the managers have to diligently conduct their marketing efforts towards this cause.

9.3 CUSTOMER SATISFACTION

Customers buy goods and services to meet specific needs, and they evaluate the outcomes of their purchases based on what they expect to receive. Needs are deeply rooted in people's unconscious minds and concern long-term existence and identity issues. When people feel a need, they are motivated to take action to fulfill it. Abraham Maslow identified five categories of human needs-physiological, safety, love, esteem and self-actualization- and proposed that basic needs such as food and shelter must be met before others can be fulfilled. Greater prosperity means that increasing numbers of individuals are seeking to satisfy social and self-actualization needs, which creates demand for more sophisticated goods and services. For instance, travel and leisure services have been a major beneficiary of increased disposable income, leading many firms to develop a variety of enticing vacation packages. However, as customer needs and preferences continue to evolve, the leisure industry needs to adapt its offerings accordingly.

The shift in consumer behaviour and attitudes provides opportunities for service companies that understand and meet changing needs, continuing to adapt their offerings over time as needs evolve. Customers' expectations about what constitutes good service vary from one business to another. Expectations are also likely to vary in relation to differently positioned service providers in the same industry.

When individual customers or corporate purchasing departments evaluate the quality of a service, they may be judging it against some internal standard that existed prior to the service experience. Perceived service quality results from customers comparing the service 'they perceive they have received' against what 'they expected to receive'. People's expectations about services tend to be strongly influenced by their own prior experience as customers-with a particular service provider, with competing services in the same industry, or with related services in different industries. If they have no relevant prior experience, customers may base their pre-purchase expectations on factors such as word-of-mouth comments, news stories, or the firm's marketing efforts.

9.4   MONITORING AND MEASURING

In today's competitive environment, the quality of your customer service is an increasingly important factor in nurturing positive customer loyalty. However, it remains the case that many organisations are still not monitoring, measuring or even managing the service quality of their contact centre agents, despite the fact that a single interaction between them and the customer can make or break a relationship. Variant recently carried out some research looking at the state of customer service in the UK. It found that despite the current economic climate, only 22% of consumers value price over service and as many as 38% of consumers admit to never contacting their suppliers, and those that do don't get in touch very often. How can you build customer relationships and create a loyal customer base if this is the case?

Organisations need to ensure that the few interactions a customer has with the contact centre are handled efficiently and leave the customer feeling satisfied.

Making quality the 'norm'

While the customer's personal experience cannot always be completely captured and analysed, this information call recordings in contact centre's, customer emails and social media interactions - combined with customer satisfaction surveys, can give an organisation a better idea of the customer experience. These insights will allow companies to improve their service and tailor their products precisely to what their customers want, improving satisfaction and increasing loyalty.

Unfortunately, the reality for many organisations is slightly different, and organisations often struggle to manage the basic call monitoring functions, or capture additional insight from other channels such as email, instant messaging or social networking sites. Too often the focus is put on streamlining internal efficiency-based metrics, meeting tightly monitored call routing and time SLAs, while the detailed assessment of the customer experience and the outcome of the call are put to one side. By treating calls as one-off customer issues, the contact centre is at risk of ignoring the underlying commonalties and actually being able to identify the root-cause and possible prevention for these situations. Fundamentally, though, this can all act towards improving the customer service.

The key to effective quality monitoring includes six crucial steps:

1. Listen to your customers by monitoring interactions. Ask questions such as: are these interactions related to the company's goals and objectives, or are they related to specific areas of concern such as customer attrition? This is where analytics comes into play for the contact centre. Speech analytics identifies calls that are relevant for evaluation and text analytics identifies email and chat interactions that should be monitored.

2. Capture all of your customer feedback channels. Apply the same quality standard that is used for calls to text-based interactions like email and chat.

3. Ask your customer what they think. Instead of using your organisation's internal metrics to measure the quality of a call, ask the customer: "What did you think of your experience and the agent you worked with?" or "Did your service experience match the promise made in our advertising?" It's very important to map high-quality interactions with your customers" expectations, comparing internal evaluation scores with customer scores.

4. Use quality monitoring to help agents improve skills. Evaluate interactions to identify skills gaps, and provide individual learning opportunities where there are deficiencies.

5. Do not view agent development as a one-off activity. Provide continuous coaching that will help improve agent performance and productivity. Coaching is key to consistent customer service.

6. Measure your results and keep track of continuous feedback and evaluation to monitor and measure progress.

9.5   UNDERSTANDING CUSTOMER EXPECTATIONS

'Customer expectation management' is another important responsibility of the service organisation that can be achieved through customer education. It is necessary to study the level of service expectations by the customers and design a communication programme to influence the customers to have proper and correct expectations. Some customers develop unrealistic expectations. The organisation should negotiate these unrealistic expectations and bring them down to realistic propositions without hurting customer's feelings. Service employees should have transactional skills to effectively negotiate customer expectations. When a company wants to down size its activities or shift focus to such services which yield more revenue, it is necessary to reset consumer expectations gracefully without affecting sales potential.

Customer expectations embrace several different elements, including desired service, adequate service, predicted service, and a zone of tolerance that falls between the desired and adequate service levels.

Desired and adequate service levels- Desired service is the type of service customers hope to receive. It is a wished-for level of service-a combination of what customers believe can be and should be delivered in the context of their personal needs. However, most customers are realistic and understand that companies can't always deliver the level of service they would prefer; hence, they also have a threshold level of expectations, termed adequate service, which is defined as the minimum level of service customers will accept without being dissatisfied.

Predicted service- The level of service customers actually anticipate receiving is known as predicted service and directly affects how they define adequate service on any given occasion. If good service is predicted, the adequate level will be higher than if poorer service is predicted. Customer's predictions of service may be situation specific.

9.6   ZONE OF TOLERANCE

The inherent nature of services makes consistent service delivery difficult across employees in the same company and even by the same service employee from one day to another. The extent to which customers are willing to accept this variation is called the 'zone of tolerance'. A performance that falls below the adequate service level will cause frustration and dissatisfaction, whereas one that exceeds the desired service level will both please and surprise customers, creating what is sometimes referred to as customer delight. Another way of looking at the zone of tolerance is to think of it as the range of service within which customers don't pay explicit attention to service performance. By contract, when service falls outside the range, customers will react either positively or negatively. The zone of tolerance for individual customers depending on factors such as competition, price, or importance of specific service attributes.

9.6.1   MANAGING DIFFERENTIATION

In these days of intense price competition, service marketers often complain about the difficulty of differentiating their services from those of competitors. To the extent that customers view the services of different providers as similar, they care less about the provider than the price.

The solution to price competition is to develop a differentiated offer, delivery, and image. The offer can include innovative features that set one company's offer apart from competitor's offers. For example, airlines have introduced such innovations as in-flight movies; advance seating, air-to-ground telephone service, and frequent-flyer award programs to differentiate their offers. British Airways even offers international travelers a sleeping compartment, hot showers, and cooked-to-order breakfasts. Unfortunately, most service innovations are copied easily. Still, the service company that innovates regularly usually will gain a succession of temporary advantages and an innovative reputation that may help it keep customers who want to go with the best.

Service companies can differentiate their service delivery in three ways-through people, physical environment, and process. The company can distinguish itself by having more able and reliable customer-contact people than its competitors have. Or it can develop a superior physical environment in which the service product is delivered. Finally, it can design a superior delivery process. For example, a bank might offer its customers electronic home banking as a better way to deliver banking services than having to drive, park, and wait in line.

Service companies also can work on differentiating their images through symbols and branding. For example, the Harris Bank of Chicago adopted the lion as its symbol on its stationery, in its advertising, and even as stuffed animals offered to new depositors. The well-known Harris Lion confers an image of strength on the bank. Other well-known service symbols include The Traveler's red umbrella, Merrill Lynch's bull, and Allstate's good hands.

To differentiate its service, British Airways offers international travelers such features as sleeping compartments and hot showers. As the comments in this ad show, customers really appreciate such services.

9.6.2   MANAGING SERVICE QUALITY

One of the major ways a service firm can differentiate it is by delivering consistently higher quality than its competitors do. Like manufacturers before them, many service industries have now joined the total quality movement. Many companies are finding that outstanding service quality can give them a potent competitive advantage that leads to superior sales and profit performance. Some firms have become almost legendary for their high-quality service.

The key is to exceed the customer's service-quality expectations. As the chief executive at American Express puts it, Promise only what you can deliver and deliver more than you promise! These expectations are based on past experiences, word of mouth, and service firm advertising. If perceived service of a given firm exceeds expected service, customers are apt to use the provider again. Customer retention is perhaps the best measure of quality-a service firm's ability to hang onto its customers depends on how consistently it delivers value to them. Thus, whereas the manufacturer's quality goal might be zero defects, the service provider's goal is zero customer defections.

The service provider needs to identify the expectations of target customers concerning service quality. Unfortunately, service quality is harder to define and judge than product quality. It is harder to get agreement on the quality of a haircut than on the quality of a hair dryer, for instance. Moreover, although greater service quality results in greater customer satisfaction, it also results in higher costs. Still, investments in service usually pay off through increased customer retention and sales. Whatever the level of service provided, it is important that the service provider clearly defines and communicates that level so that its employees know what they must deliver and customers know what they will get.

Many service companies have invested heavily to develop streamlined and efficient service-delivery systems. They want to ensure that customers will receive consistently high-quality service in every service encounter. Unlike product manufacturers who can adjust their machinery and inputs until everything is perfect, however, service quality always will vary, depending on the interactions between employees and customers. Problems inevitably will occur. As hard as they try, even the best companies will have an occasional late delivery, burned steak, or grumpy employee. However, although a company cannot always prevent service problems, it can learn to recover from them. A good service recovery can turn angry customers into loyal ones. In fact, good recovery can win more customer purchasing and loyalty than if things had gone well in the first place. Therefore, companies should take steps not only to provide good service every time, but also to recover from service mistakes when they do occur.

The first step is to empower frontline service employees-to give them the authority, responsibility, and incentives they need to recognize, care about, and tend to customer needs. For example, Marriott has put some 70,000 employees through empowerment training, which encourages them to go beyond their normal jobs to solve customer problems. Such empowered employees can act quickly and effectively to keep service problems from resulting in lost customers. The Marriott Desert Springs revised the job description for its customer-contact

employees. The major goal of these positions now is to ensure that our guests experience excellent service and hospitality while staying at our resort. Well-trained employees are given the authority to do whatever it takes, on the spot, to keep guests happy. They are also expected to help management ferret out the cause of guest's problems, and to inform managers of ways to improve overall hotel service and guest's comfort.

Studies of well-managed service companies show that they share a number of common virtues regarding service quality. First, top service companies are customer obsessed. They have a distinctive strategy for satisfying customer needs that wins enduring customer loyalty.

Second, well-managed service companies have a history of top management commitment to quality. Management at companies such as Marriott, Disney, Delta, Federal Express, and McDonald's looks not only at financial performance but also at service performance. Third, the best service providers set high service quality standards. Swissair, for example, aims to have 96 percent or more of its passengers rate its service as good or superior; otherwise, it takes action. Citibank aims to answer phone calls within ten seconds and customer letters within two days. The standards must be set appropriately high. A 98 percent accuracy standard may should good, but using this standard, 64,000 Federal Express packages would be lost each day, 10 words would be misspelled on each page, 400,000 prescriptions would be misfiled daily, and drinking water would be unsafe eight days a year. Top service companies do not settle merely for good service, they aim for 100 percent defect-free service.

Fourth, the top service firms watch service performance closely-both their own and that of competitors. They use methods such as comparison-shopping, customer surveys, and suggestion and complaint forms. For example, General Electric sends out 700,000 response cards each year to households who rate their service people's performance. Citibank takes regular measures of ART-accuracy, responsiveness, and timeliness-and sends out employees who act as customers to check on service quality.

Good service companies also communicate their concerns about service quality to employees and provide performance feedback. At Federal Express, quality measurements are everywhere. When employees walk in the door in the morning, they see the previous week's on-time percentages. Then, the company's in-house television station gives them detailed breakdowns of what happened yesterday and any potential problems for the day ahead.

9.6.3   MANAGING PRODUCTIVITY

With their costs rising rapidly, service firms are under great pressure to increase service productivity. They can do so in several ways. The service providers can train current employees better, or they can hire new ones who will work harder or more skillfully for the same pay. Or the service providers can increase the quantity of their service by giving up some quality. Doctors who work for health maintenance organizations (HMOs) have moved toward handling more patients and giving less time to each. The provider can industrialize the service by adding equipment and standardizing production, as in McDonald's

assembly line approach to fast-food retailing. Commercial dishwashing, jumbo jets, and multiple-unit movie theaters all represent technological expansions of service.

Service providers also can increase productivity by designing more effective services. How-to-quit-smoking clinics and exercise recommendations may reduce the need for expensive medical services later on. Hiring paralegal workers reduces the need for expensive legal professionals. Providers also can give customers incentives to substitute company labor with their own labor. For example, business firms that sort their own mail before delivering it to the post office pay lower postal rates.

However, companies must avoid pushing productivity so hard that doing so reduces perceived quality. Some productivity steps help standardizes quality, increasing customer satisfaction. But other productivity steps lead to too much standardization and can rob consumers of customized service. Attempts to industrialize a service or to cut costs can make a service company more efficient in the short run but reduce its longer-run ability to innovate, maintain service quality, or respond to consumer needs and desires. In some cases, service providers accept reduced productivity in order to create more service differentiation or quality.

9.7   ORDER TAKING AND FULFILLMENT

Order taking means a company takes between receiving the new order and putting in that order into the customer's hands. The procedure includes warehousing, picking and packing the item, shipping it and sending an email to the customer to tell them the order is in travel. In this post, we'll give you a broader idea of what order taking actually is:

➤ Order is received, either face to face, on the telephone, by means of email, and so forth.

➤ Order must be entered into the back-office system (like an ERP or bookkeeping stage)

➤ Customer is advised that the order has been received.

➤ Order is sent to the warehouse. A paper request may be taken to the warehouse as a feature of a bunch, or it is sent straightforwardly from an invoicing or deals order the order management application.

➤ Order is picked: a worker goes into the warehouse, finds the things in the order, and picks them off the rack.

➤ Order is packed to plan for delivery.

➤ Order is dispatched.

➤ Customer is informed that the order is en route.

➤ Order arrives.

One of the ways in which organizations judge the effectiveness of their order taking forms is by taking a gander at the Perfect Order Metric. An ideal

request is one that is on time, total, and flawless, alongside the right administrative work to go with it. This measurement is like fill rate, which we've talked about on the blog previously. In spite of the fact that organizations all state they make progress toward immaculate orders without fail, it's a troublesome thing to accomplish. Here are a few bits of knowledge and tips to enable your business to satisfy arranges all the more rapidly, precisely and effectively.

9.7.1 ORDER FULFILLMENT PROCESS

Businesses face several difficulties all through the order fulfillment service. These incorporate difficulties identified with planning, inventory management, supply chain optimization, logistics planning, and a few other complex concerns. Be that as it may, at the danger of over-improving issues, what it truly comes down to is knowing and having the capacity to settle on powerful choices about what you need to sell, regardless of whether a customer is probably going to get it, and how are you going to get it to them in the event that they do. We should separate the issue into its distinctive parts:

1. **Demand Planning:** Demand Planning includes knowing ahead of time what interest for a product will be, just as interest forming or a company effort to attempt to produce order, such as showcasing and promotions.

2. **Inventory Management:** Order settlement is tied in with meeting customer desires, and it's difficult to do that on the off chance that you are out of stock on the things clients need. Realizing what's in stock and having the capacity to give permeability on stock dimensions as the order is set keep clients from being disappointed with rain checks and delays.

3. **Supply Chain Execution:** When things are low or out of stock, how rapidly would you be able to get them back in stock? How rapidly can your makers produce more items? From that point, to what extent will it take to get to your warehouse? These are supply chain execution addresses that can likewise affect order fulfillment.

4. **Logistics Planning:** Once the things are prepared to deliver, how are you going to get them to the customer? To what extent will it take? Will the things be taken care of cautiously so they touch base in one piece?

9.7.2 ORDER FULFILLMENT PROCESS STRATEGIES

With regards to accelerating order fulfillment, there are many means you can take to have a major effect. Begin by taking a gander at a portion of the "fast successes" that don't require a huge venture of money, yet will have a speedy effect, for example, ordering your stock and guaranteeing that it is put away as intelligently as would be prudent. The following stage is to ensure that you are benefitting as much as possible from the frameworks you as of now have set up. Numerous companies have the pieces set up that are expected to improve their order fulfillment processes, yet can't take full advantage of this system. At last, you can likewise take a gander at making new interests in mechanization to accelerate your request dealing with times.

1. **Classify your inventory to guarantee quick handling:** Grouping your inventory from quickest moving to slowest moving guarantees that you generally have the correct stock dimensions on your most essential things. Put the most mainstream things in a midway found region of your warehouse to guarantee that they can be picked, packed and dispatched to the delivery dock in an insignificant measure of time. Slower moving things can be stored in a different zone. This increasingly intelligent plan can truly eliminate the time it takes to process and satisfy orders.

2. **Integrate systems for greater permeability into all parts of order fulfillment:** In order to rapidly fulfill an order, you need visibility into a few areas order gauging, sales, inventory, and coordination just to give some examples. At the very least, this requires some dimension of incorporation between the business request the board system where the order is set, and the ERP system that keeps up monetary information, just as the inventory and coordination system that handle the procedures for picking, packing, and shipping.

3. **Automate processes:** After your system can give greater visibility into all parts of the procedure, you ought to likewise take a gander at how the procedures themselves can be accelerated. Automation doesn't really mean putting resources into mechanical autonomy or transports, it tends to be as basic as putting resources into scanners to all the more effectively enter inventory into the system as it touches base in your distribution center, or examining it out as it leaves. Also, for little organizations, the speculation doesn't need to be tremendous. There are even applications that can be downloaded to a smart phone or tablet to robotize this procedure modestly.

Each of these strategies has a double advantage. Renaming inventory from quickest moving to slowest won't just help spare time in the order fulfillment process; it will also set aside some cash regarding work costs in the warehouse. System combination will improve the process of warehouse fulfillment service yet additionally give better announcing and analytics that can help basic leadership and benefit. And automating processes speeds order fulfillment yet, in addition, gives progressively exact information to future orders.

9.8   SUMMARY

Customer satisfaction is imperative to keep the business running. Managers take several measures to keep their customers contented. Quality assurance is one such step which involves listening to customers, capturing customer feedback, interacting with customers regarding what they think, learning their preferences, identifying skill gaps and measuring the results to keep routine track of any deviations.

Next thing that managers do is to meet the expectations of customers. They design the desired and adequate service levels which match the customer's level of predicted service.

Customers are believed to have their own zone of tolerance wherein they tend to bear the deviation in service from their expectations. Performance, that falls short of this zone of tolerance leads to dissatisfaction among customers. Often the expectations of the customers are also not realistic therefore manager has to bring down this expectation through proper communication. The manager's task is to manage this match of their service level and the customer's expectation. Service differentiation, quality improvement, increasing productivity through proper order fulfillment and applying proper order fulfillment strategies are some of the measures adopted by managers to bring in customer satisfaction.

9.9 SELF-ASSESSMENT QUESTIONS

1. What is the customer satisfaction? Explain it in respect of service marketing.

2. Describe the monitoring and measuring of services.

3. What are the key to effective quality monitoring includes six crucial steps?

4. Do you understand customer expectations? If yes then how can meet their expectations?

5. What are the desired and adequate service levels? Explain it.

6. What is the zone of tolerance? Discuss the tolerance levels of the customers.

7. Discuss the managing differentiation and managing service quality.

8. Explain managing productivity with taking suitable examples.

9. Elaborate the order taking and fulfillment of service products.

10. What are the order fulfillment process? Discuss it.

11. Explain order fulfillment process strategies.

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UNIT-10 CUSTOMER SATISFACTION: SERVICE GUARANTEE

UNIT FRAMEWORK

10.1 Objectives

10.2 Introduction

10.3 Service Guarantee

10.4 Defects

10.5 Service Failures

10.6 Handling Complaints

10.7 Service Recovery

10.8 Summary

10.9 Self-Assessment Questions

10.10 Text and References

10.1 OBJECTIVES

After completing this unit you will be able to:

> ➢ to explain the customer satisfaction: service guarantee

> ➢ to understanding of the service guarantee

> ➢ to recognize the handling complaints

> ➢ to examine the defects

> ➢ to discuss the failures and recovery.

10.2 INTRODUCTION

More importantly, the managers have to build strong relationships with the customers which involve understanding the expectations of customers and offering appropriate value to them through their services. This constitutes a huge exercise and involves consistent efforts in monitoring and measuring the customer's expectations and their zone of tolerance.

While service quality depends much on the quality of service personnel. Even with the same set of people the quality of service may vary at a different instance of time. The managers need to understand to what extent the variations are acceptable and allowed given the taste and tolerance level of a specific

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customer. They need to assure customers about the kind of service promised and guarantee the customer on what they ought to get at a given price.

Frequently expectations of customers are not realistic, maybe because of the ambiguous marketing communications on the part of the marketers or inadvertently misunderstanding on the part of the customers themselves. Managers also have to run campaigns to educate the customers and rationalize their high expectations. In short, keeping a satisfied customer is a daunting task and the managers have to diligently conduct their marketing efforts towards this cause.

10.3 SERVICE GUARANTEE

A service guarantee is a marketing tool service firms have increasingly been using to reduce consumer risk perceptions, signal quality, differentiate a service offering, and to institutionalize and professionalize their internal management of customer complaints and service recovery. By delivering service guarantees, companies entitle customers with one or more forms of compensation, namely easy-to-claim replacement, refund or credit, under the circumstances of service delivery failure. Conditions are often put on these compensations; however, some companies provide them unconditionally.

Service offerings are largely intangible in nature. Customers are thus unable to assess the purchase outcome prior to experience, rendering the risk of possible customer dissatisfaction very high. It is argued that the concept of service guarantees proposed by services management theory can be effectively utilised to reduce the perceived risk of dissatisfaction for the customer in service organisations.

Additionally, it is suggested that service guarantees force management to undertake activities which elevate the superiority of the organisation in the eyes of the customer and, thus, the opportunity to transform one-time customers into loyal ones. The purpose of this text is twofold: first, to illustrate how customers' behavioural intentions can be influenced by the use of a service guarantee; and second, to outline a systematic process that can help service business managers to develop and implement an effective service guarantee.

10.3.1 FEATURES OF A GOOD GUARANTEE

A good guarantee has the following features:

1.   **Credible:** Guarantees must be offered in a believable manner.

2.   **Easy to Collect:** Service providers should design an easy and problem-free guarantees collection process for customers. For example, a dissatisfied customer at Hampton Inn should receive an immediate credit for the price of the dissatisfying service. The customer should not have to drive across town to obtain payment, nor should the customer have to fill out a laborious form or accumulate a tedious amount of documentation.

3.   **Easy to Invoke:** The guarantee should be less dependent on the customer and more on service provider. Let us consider the Hampton Inn guarantee,

for example suppose the customer's air conditioning did not work on a hot summer night, and the problem could not be rectified, in spite of bringing it to the management's attention. For the guarantee to be effective, management should make that night free, without waiting for the customer to ask. If it evident that the customer is dissatisfied, and the problem has not been solved, then management should invoke the guarantee itself.

4. **Easy to Understand:** If the customer does not understand the guarantee, then that customer will not see any benefit. For maximum effectiveness, the guarantee should be specific. For example, Domino's pizza guaranteed delivery in 30 minutes. That is much better than guaranteeing "fast delivery," which is hard to pin down. Be specific.

5. **Comprehensible:** The guarantees must be easy to understand and communicate so that customers can have clear awareness of the benefits of the guarantees.

6. **Meaningful:** Firms must make the guarantee important to the customers and provide adequate values to offset service failure. A fast-food restaurant guaranteeing 10-minute service at lunch will probably do better than one guaranteeing to address customers by their first name. This is because fast service at lunch is important to fast-food customers, whereas personal familiarity is not.

7. **Unconditional:** Promises of the guarantees must be unconditional and no elements of surprise should be made to customers. If a guarantee applies only to left-handed people on Friday in a leap year when there is a full moon, few customers will be very interested. By comparison, consider the Hampton Inn guarantee. It says simply, "If you're not completely satisfied, we don't expect you to pay. This is unconditional and you don't need to be a lawyer to understand it.

10.3.2 TYPES OF SERVICE GUARANTEES

Further, previous research has identified four types of service guarantees:

1. Specific

2. Unconditional

3. Implicit and

4. Internal

(i) **A Specific Guarantee:** Signals firm commitment on specific attribute performance such as delivery time or price. Specific guarantees allow customers to evaluate service by disconfirming attribute performance expectations. From the firm's perspective, a specific guarantee can serve not only as a benchmark to guide employee efforts and firm process design, but also as a performance measure. However, the narrow focus on some attributes may not be highly valued or appreciated by a heterogeneous customer base, although it may appeal to certain segments.

(ii) **An Unconditional Guarantee:** Promises performance on all aspects of service, and "in its pure form, promises complete customer satisfaction, and at a minimum, a full refund or complete, no cost problem resolution for the payout." Unconditional guarantees require a slightly different firm approach since variables that determine customer satisfaction such as effect and cognitive evaluations of attribute performance (Oliver) are not within the firm's control. Implementation of unconditional guarantees requires firms to focus efforts on managing customer interactions instead of specific service attributes. The distinction between specific or overall (unconditional) performance is important as it defines the scope of the marketing effort required to communicate and support the guarantee, and has widely different implications for service guarantee design and management.

(iii) **Implicit Guarantee:** As the term suggests, it is an unwritten, unspoken guarantee that establishes an understanding between the firm and its customers. Customers may infer that an implicit guarantee is in place when a firm has an outstanding reputation for service quality. The focus of an implicit guarantee is customer satisfaction. Previous research suggests that customers are more likely to rely on explicit firm promises instead of implicit cues to make inferences about the firm.

(iv) **An Internal Guarantee:** Is "a promise or commitment by one part of the organization to another to deliver its products or services in a specified way or incur a meaningful penalty, monetary or otherwise." Since implicit guarantees are unconditional guarantees (without formal expression of explicit commitment) and the focus of internal guarantees is limited to coordinating functions and employees, the subsequent discussion includes only specific and unconditional guarantees.

10.3.3 BENEFITS OF SERVICE GUARANTEE:

The benefits to the company of an effective service guarantee are as follows:

1. **Sets Clear Standards for the Organisation:** It prompts the company to clearly define what it expects of its employees and to communicate that to them. The guarantee gives employees service-oriented goals that can quickly align employee behaviours around customer strategies.

2. **Forces the Company to Focus on its Customers:** To develop a meaningful guarantee, the company must know what is important to its customers what they expect and value. In many cases "satisfaction" is guaranteed, but in order for the guarantee to work effectively, the company must clearly understand what satisfaction means for its customers (what they value and expect).

3. **A Good Service Guarantee Studies the Impact on Employee Morale and Loyalty:** A Guarantee generates pride among employees. Through feedback from the guarantee, improvements can be made in the service that benefits customers, and indirectly employees.

4. **Immediate and Relevant Feedback from Customers:** It provides an incentive for customers to complain and, thereby, provides more representative feedback to the company than simply relying on the relatively few customers who typically voice their concerns. The guarantee communicates to customers that they have the right to complain.

5. **Reduces their Sense of Risk and Builds Confidence in the Organisation for Customers:** Because services are intangible and often highly personal or ego involving, customers seek information and cues that will help reduce their sense of uncertainty.

For customers, service guarantees play an important role in alleviating perceived risks of the purchase. The guarantees also facilitate more ease and more likelihood for customers to complain, since they expect the front-line staff to be ready with resolutions and appropriate compensations. From companies' perspectives, according to the vice President of Hampton Inn, "Designing the guarantee made us understand what made guests satisfied, rather than what we thought made them satisfied."

10.4 DEFECTS

A defect is a physical, functional, or aesthetic attribute of a product or service that exhibits that the product or service failed to meet one of the desired specifications. Services must meet the agreed standards in terms of their content, performance and outcome.

Since the assessment of defects in services is based on general standards, the personal expectations of an individual consumer are of no significance. Instead, the conduct of the business in question in providing advice and information to the consumer is taken into consideration when assessing defects.

A service is defective, when work is not done professionally and diligently. Professionalism entails elements such as the business being able to locate a defect and, based on that, offering a suitable service for rectifying it. The business must also be able to choose an appropriate method of undertaking the work and determining whether to repair a defective part or to replace it with a new one.

Diligence includes e.g. bringing along the appropriate equipment for locating and repairing a defect when visiting a consumer's home. Diligence also involves asking the customer to provide advance information on matters significant in terms of the job at hand and ensuring that the repairs were successful.

➢ the consumer's interests have not been adequately taken into consideration Taking the consumer's interests into consideration refers to e.g. businesses taking steps to avoid causing unnecessary costs to the consumer.

➢ the durability and other attributes of work or materials do not meet the usual standards of good quality. The outcome of work must meet the usual standards of good quality. For example, in the case of renovating an apartment, this would mean that groundwork such as the cleaning and

smoothing of surfaces is properly done before painting and wallpapering. If materials purchased by the consumer are used, the entrepreneur must be able to assess their usability.

➢ the work does not comply with the requirements set by law, decrees or the authorities, such as regulations on electrical and fire safety.

➢ the work does not correspond to the information provided in advance. Information provided in advance refers to all information about the service that affected the consumer's decision-making, including information provided in marketing, at the time of concluding the agreement and during the delivery of the service.

➢ the service provider did not provide sufficient information on the most sensible way to perform the work or other significant aspects. The service provider must inform the buyer if, for instance, the result of the work will suffer if it is taken into use too early.

10.4.1 METHODS OF COMPENSATING FOR DEFECTS IN SERVICES

Compensation methods for defects in services include partial payment of the purchase price, rectification of a defect and repeating the assignment, price reduction and the cancellation of a contract.

1. **Partial payment of the purchase price:** The customer has the right not to pay the price of the service, or part of it, until the defect is rectified or otherwise compensated for. The sum withheld must by and large correspond to the significance of the defect, for instance the repair costs. The entire payment can be withheld only if the defect is so substantial that it might provide grounds for the cancellation of the sale. If the consumer withholds payment of the entire purchase price due to a minor defect, he or she may be liable to pay penalty interest.

2. **Rectification of defect and repeating the assignment:** The customer has the right to require that the company rectify the defect or repeat the defective service, i.e. perform the work again. This may not incur costs for the consumer, for instance costs for freight or spare parts.

The company has the right to rectify the defect if this can be done within a reasonable time. If the company is unable to perform the repair rapidly enough, the consumer may have the defect repaired by another company and invoice the vendor company for it. This is possible for instance when

➢ the company's professional skills are inadequate.

➢ rectification of the defect cannot be postponed

➢ the service provider is unavailable.

The company has the right to refuse to perform repairs and provide compensation in the form of a discount, if rectification of the defect would result in unreasonable costs or inconvenience. This may be possible when the defect in question is of a minor nature, but the repair costs are thought to be considerable.

Consumers are also entitled to compensation for damage caused by the defect.

3. **Discounts:** If the service is impossible to repair or repeat, or the company does not rectify the defect within a reasonable time, the consumer has the right to demand a discount.

A discount may come into question when:

➢ the defect in question is minor for the buyer with regard to the whole, for instance a surface defect.

➢ repairing the defect would cause unreasonable costs in relation to the value of the service.

The discount must correspond in value to the defect. For example, the discount may correspond to the repair costs or the decrease in the value of the service compared to general price levels. The consumer is not obliged to accept a gift voucher in lieu of a discount. If a discount cannot be offered as compensation, the complete cancellation of the sale usually constitutes the final form of compensation. Consumers are also entitled to compensation for any damage caused by the defect.

4. **Cancellation of contract:** The consumer may demand that the contract be cancelled if the defect is significant and no other form of compensation, for instance a discount or compensation for damage, can be provided. If the consumer wishes to cancel the sale before the work is completed, the work must be clearly unprofessional, for instance so defective and incompetent that the final result can also be expected to be seriously defective. However, the consumer must pay for work performed correctly insofar as he or she benefits from it. If the consumer wishes to cancel the sale after the completion of the work, the end result of the work must be so defective that the work performed is in no way useful.

If the contract is cancelled after its completion,

➢ the consumer does not have to pay the agreed price. However, in certain situations the consumer may be obliged to compensate for parts that cannot be returned but that are to some extent useful to the consumer.

➢ the company has the right to reclaim the materials that can be returned. Attached materials need not be returned if detaching them cause's major inconvenience.

10.5 SERVICE FAILURES

If services are performed right at the first time, the question of deficiency or failure does not arise. But service firms often face problems of poor performance, delayed performance or part performance. These problems arise due to several reasons. Human error may be a dominant reason. Sometimes, there is a failure in support service or efficiency variations in contact personnel. Service deficiencies and failures affect the interactive process and result in poorly perceived quality by service consumers. Consumers have grievances against the service provider when they experience deficiency in services or service failures.

All consumers may not settle their grievances in the same manner. The possible responses from consumers may be Take it easy, Wait for failure the second time, Do not complain but vote with the feet, Complain but do not shift loyalty, Complain; seek compensation; promote negative word-of-mouth.

Every effort should be made to develop an appropriate product or service. However, it is not always possible that the service or product would be successful. The success or failure of a product or service depends upon a number of other forces, which are dynamic in nature and changes time-to-time and situation-to-situation. Whatever the methods of service design is adopted, a specific service map or a concept service map - one of the main aims will be to identify the potential points in the process which may result in a service failure. It is probably possible that at some time either result service failure. Therefore, efforts should be made to anticipate these occasions well in advance, so that mistakes could be prevented from turning into a service defect and also a service failure. In this way a service design can also be justified. An organization should try to identify those critical aspects which may results in service failure. Once these aspects have been identified, it can be helpful to design the mechanism as to reduce the risk of human mistakes turning into actual service failures. As old people say, *"Prevention is better than cure"*. Thus service failure is the end result of all the unwanted things and mistakes made by either party, whether he is customer or server. Customer errors can be classified as relating to preparation for the service provider, the encounter itself, or to the resolution of the encounter.

➢ Preparation errors may result from the failure of customers to bring the necessary materials to the encounter, or to understand their roles in the service encounter.

➢ Encounter errors include failure or customers to remember steps in the service process to follow the system flow or to specify desires or follow instructions.

➢ Resolution errors include failure of customers to signal service failures, learn from experience, adjust expectation, or execute appropriate post encounter action.

10.6 HANDLING COMPLAINTS

The question arises that what will be the reaction of the customers in case of a service failure. In other words how customers' reacts in case the services are not accordance to their expectations. What options are open to customers when they experience a service failure? The customer may pursue the following four major courses of action:

➢ Do nothing.

➢ Complain to the service firm.

➢ Action through a third party viz. consumer advocacy group, consumer affairs or regulatory agencies, civil or criminal court, etc.

➢ To stop the services of same supplier and to discourage other people from using the services of similar supplier.

Thus how will a customer react towards failure of service, depends upon knowledge of the customers, resources, attitude and circumstances at the time of purchase. Generally innocent customers respond smoothly and almost do not resist. But active, experienced and educated customers resist strongly and take all those steps which they feel appropriate. This kind of people do not want any compromise on service quality and the organization must see to it that they are satisfied otherwise they may depreciate the goodwill of the company and can motivate people for not purchasing by negative word of mouth.

The aggrieved consumers may choose to lodge complaint to either of the following:

➢ The contact employee

➢ The manager of the service outlet

➢ The corporate office

➢ The police

➢ The consumer court

Service companies need to give special importance to handling complaints. In several instances, it is proved that when complaints are handled properly, the customer, whose grievance are settled become strong loyalist of the company. Service companies should provide accessible complaint-making facilities at every service outlet. Companies should believe in the philosophy that 'complaints are opportunities to excel' and encourage customers to register even minor grievances. Such steps indicate the positive orientation of the company. For better results, companies may need to follow the following steps for complaint handling:

➢ **Registration**- A mechanism needs to be designed to register each and every complaint and to give an identity number to each complaint.

➢ **Acknowledgement**- Each complainant should be acknowledged and be communicated to by the identity number of his complaint.

➢ **Collection and classification**- The complaints received at various service outlets should be pooled and classified. The complaints classified need to be routed to the responsible personnel in the organisation.

➢ **Analysis and responses**- Complaints need to be analyzed and a proper and early response given to each and every complaint.

10.6.1 CONSUMER GRIEVANCE HANDLING STRATEGIES

Sincere efforts by the service provider are essential to settle the grievances of the consumers, negligence on the spot results in another service failure and triggers consumer grievance further. No service provider can afford to have consumer grievance as that may result in severe customer loss. Therefore, attempts must be made to recover from the damage already done. The following strategies are capable of yielding good results in recovery:

- ➤ **Unqualified apology-** Apologizing sincerely to the aggrieved consumer often contributes to reducing the intensity of grievance. All consumer complaints may not be correct or rational. Some consumers have the habit of finding fault in everything. Some may not be capable of interpreting facts properly and some may not have sufficient information to develop expectations. Business experts suggest that though the consumer may be wrong, the service provider should not feel that he has a right to be angry about such complaints. The general rule should be to apologize for the inconvenience caused, with a promise to take measures for arresting the reoccurrence of such failures.

- ➤ **Rectifying errors-** One of the best alternatives in recovery is doing the service correctly again. However, this strategy cannot be applicable for all services. A barber after giving a bad hair-cut cannot correct it immediately.

- ➤ **Speed-** Customers generally do not have the patience to wait for longer periods to settle their grievances. The longer the time taken for settlement, the greater will be the intensity of grievance. Delay in settlement of grievance may multiply the problems of the company and may also provide time to the aggrieved consumer to spread negative word-of mouth in the market. On the other hand, a fast response will ensure a happy consumer and the company may find him a positive word-of -mouth campaigner.

- ➤ **Better quality-**Researchers suggest that the best recovery strategy is to improve quality. By offering better quality service to the customer when there is a service failure, the service provider can turn the customers' grievance into delight. Suppose a customer reserves in advance a two bed accommodation in a hotel. When he reaches the hotel with his family he finds no accommodation. There is every reason for his grievance. If the manager of the hotel tenders as apology immediately and offers a suite for the same price, coupled with a free banquet dinner, the customer is delighted.

- ➤ **Compensate value-**In some services, the performed service cannot be undone. There may not be any other way for the service provider except to compensate for the damage done. In health care services a service failure may lead to the death of a patient. A service provider may reduce the grievance through the payment of compensation.

- ➤ **Institutionalizing correction process-**Service companies should address the grievances of consumers and also focus upon correction processes. The corrective measures in the process reduce complaints and improve efficiency. The reasons for failures or deficiencies need to be identified; analyzed and appropriate measures have to be initiated for prevention. In the process, the involvement of employees as well as customers yields good results. The service providers should seek suggestions from customers as well as employees and incorporate them as per their suitability. Such steps will strengthen the bond between the service provider, the employees and the customers. The settlement of a complaint

relating to one service outlet should not be the end of the problem. Service companies should study the possibility of the occurrence of such failures in other service outlets and take precautionary measures. Learning from service failures helps in designing BSP or in modifying the existing service packages.

10.7 SERVICE RECOVERY

Service recovery is an umbrella term for systematic efforts by a firm to correct a problem following a service failure and retain a customer's goodwill. Service recovery plays a crucial role in restoring customer's satisfactions level in any organization. Things may occur that have a negative impact on its relationships with customers. The true test of a firm's commitment to service quality satisfaction level isn't in the advertising promises or the décor and ambience of its offices, but in the way it responds when things go wrong for the customer. The firms don't react always in ways that match their advertised promises. Effective service recovery requires thoughtful procedures for resolving problems and handling these customers. It is critical for a business organization to have an effective recovery strategy, because even a single service problem can destroy a customer's confidence in a firm under the following conditions:

The failure is totally outrageous. The problem fits a pattern of failure rather than being an isolated incident. The recovery efforts are weak, serving to compound the original problem rather than correct it.

10.7.1 ELEMENTS OF AN EFFECTIVE SERVICE RECOVERY SYSTEM

Service failure leads to human problems - real or imaginary. Whatever the cause, the approach should be humane. Sensitivity and empathy are required to handle such problems diligently. So they need to be handled with care the way you handle glass. Customer's problems should be handled promptly because *"Justice delayed is justice denied"* Managers face a number of challenges in designing a redressal system that provides accurate feedback in a timely and economic fashion that is acceptable to the organization and its customers. One must know the various elements of the service recovery system in order to handle or tackle problems promptly, so that one can design an appropriate recovery system. It is not necessary that a particular system is applicable for all organizations and for all types of problems, because the various factors that go into redressal process may differ from organization to organization and situation to situation. Thus a recovery system is applied to various types of problems.

It is clear that a recovery system consists of three steps viz. first of all we should do the things in the right way. But it is not always possible that all things are right, there is always a probability of doing things wrong. If it happened then problems should be handled through an effective procedure for complaint handling. It constitutes the second step. Finally effective problem handling leads to customer satisfaction and loyalty. A brief description of the important steps is given below:

1. **Do it right first time and always:** At the very beginning, the marketer should concentrate on doing the job right in the first attempt. For this the marketer should consider every possible effort in this regard. The marketer should consider customers' aspirations, needs, and requirements and further he must develop an appropriate service design system. The marketer should avoid personal biases. Market research can facilitate in this stage significantly.

2. **Identification of the Problem:** If a service fails due to any reason, then marketer must go through an effective complaint handling procedure. For this the first step is to identify the real problem. Since a particular decision is made in the context of real problem. A problem is a need and a question thrown forward for its solution. It is just like the diagnosis of a patient by the doctor. Thus at this stage, efforts should be made to identify the real issue. The emphasis should be given on the cause of the problem, which is what real issue is. Furthermore, efforts are to be made to establish cause and effect relationship. The identification of problem is half solving in itself. There are various methods which helps us in identification of problem such as market research to monitor complaints, develop "complaints as opportunity" culture, etc.

3. **To Resolve Problems Effectively:** When the problem is identified the second step is to resolve the problem in the best possible way. There may be different kinds of alter-natives which can resolve the problem. An alternative may be defined as a future course of action. It is pertinent to mention here that every organization may have different approaches to handle problems. It depends upon the size of an organization, financial position, managerial attitude, administrative efficiency and other circumstances. However, a general approach which is applicable in most cases is:

   a. Problem identification.

   b. Development of alternatives

   c. Evaluation of alternatives

   d. Selection of alternatives

   e. Implementation

   f. Feed back

   For this marketers should develop effective systems and training in complaints handling.

4. **Learn from the Past Experience:** It is always beneficial for marketers to avoid recurring of mistakes. Because it involves wastage of time and money. Thus an intelligent marketer always tries to learn from the past experience and take action accordingly. The marketer should emphasize what has happened well in past and avoid what has happened adverse. For this he should adopt root cause analysis. Keeping in view past experience he can develop his efficiency and can become competent and efficient.

10.7.2 GUIDELINES FOR THE EFFECTIVE SERVICE RECOVERY SYSTEM

1. **Prompt action:** If the complaint is made during service delivery, then time is of essence to achieve a full recovery. Whenever the complaints are made after the fact, many companies have established policies of responding as soon as possible. Even when full resolution is likely to take longer, fast acknowledgement remains very important.

2. **Admit mistakes but don't be defensive:** Be aggressive: Acting defensively may suggest that the organization has something to hide or is reluctant to fully explore the situation. Therefore one should be aggressive in his approach.

3. **To see and understand the problem from customer point of view:** Seeing situations through the customers' eyes is the only way to understand what they think has gone wrong and why they are upset. Service personnel should avoid jumping to conclusions with their own interpretations.

4. **Participative environment:** The goal should be to reach a mutually acceptable solution, not to win a debating contest or prove that the customer is an idiot. Arguing gets in the way of listening and seldom defuses anger.

5. **Try to understand the customer's feelings:** The employees must develop an attitude *'I can understand why you're upset'*. This would help in building a rapport and is the first step in rebuilding a bruised relationship.

6. **Give customers the benefit of the doubt:** Not all customers are truthful and not all complaints are justified. The customers should be treated as though they have a valid complaint until clear evidence to the contrary emerges. If a lot of money is at stake (as in insurance claims or potential lawsuits) careful investigation is warranted; if the amount concerned is small, then it may not be worth haggling over a refund or other compensation. If there is a past history of complaints by the same customer. It is better to go in detail about the past records.

7. **Open system to solve the problem:** Whenever instant solutions aren't possible, telling customers how the organization plans to proceed shows that corrective action is being taken. It also sets expectations as to the time frame.

8. **Feedback to customers about progress:** Nobody should be kept in the dark. Uncertainty breeds anxiety and stress. People tend to be more accepting of disruptions if they know what is going on and receive periodic progress reports.

9. **Envisaged compensation either by monetary form or by equivalent services:** When customers did not receive the service as per the commitments, or suffered serious inconvenience because the service

failed, then either a monetary payment of offer or equivalent service in kind should be provided. Such action may also be helpful to reduce the risk of legal action to be taken by the customer. Service guarantees often lay out in advance. In many cases, what customers want most is an apology and a commitment to avoid similar problems in the future.

10. **Disappointment of customer due to service failure:** one of the biggest challenges is to restore the confidence of the customer to maintain the relationship for the future. This may be helpful for the perseverance and to follow through, not only to defuse their anger but also to convince them that actions are being taken to avoid a repetition of such type of problems. The recovery efforts should be made effectively in building loyalty and referrals.

10.8 SUMMARY

Customer satisfaction is very important to keep the business operation. Managers take several measures to keep their customers contented. Quality assurance is one such step which involves listening to customers, capturing customer feedback, interacting with customers regarding what they think, learning their preferences, identifying skill gaps and measuring the results to keep routine track of any deviations.

Service guarantee is another area of great importance to services given the unique attributes of the services. The customers have some preconceived notions about the services and that standard of service has to be assessed and delivered by the marketer to maintain their loyal customer base. The service guarantee can be classified as specific, unconditional, implicit and internal depending on the purpose it carved for. An explicit statement of guarantee is helpful to both the firm and the customers in many ways but particularly in achieving customer satisfaction by achieving quality benchmark and dispute resolution if any.

Despite the best efforts of the marketers the service may fail. Some reasons for service failure may be beyond the control of the marketer and some may be on account of employees' incompetence, mistake or negligence. All efforts must be made by the marketers to avoid service failures, and in case service failure occurs service recovery must be affected. The organization must have a proper complaint handling mechanism which tracks the reasons for service failure and monitor service recovery.

10.9 SELF-ASSESSMENT QUESTIONS

1. What do you understand by service guarantee? Explain it with suitable examples.

2. What are the features of a good guarantee?

3. Discuss the types of service guarantees and explain the benefits of service guarantee.

4. Define defects of services. How can we overcome these defects?

5. Define service failure. How is the identification of points of potential services failure of paramount importance for marketers?

6. Elaborate the various methods of compensating for defects in services.

7. Describe the handling complaints.

8. What are the consumer grievance handling strategies? Explain it.

9. What are the procedures and guidelines for handling complaints?

10. What are the different elements of service recovery system?

11. How can a marketer make service recovery system effective?

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UNIT-11   QUALITY IN SERVICES

UNIT FRAMEWORK

11.1 OBJECTIVES

After completing this unit you will be able to:

- ➢   to explain the quality in services
- ➢   to understanding concept and importance
- ➢   to elaborate different service quality models
- ➢   to discuss the Gaps model.

11.2 INTRODUCTION

Service quality is very important for customers as well as service providers. To achieve competitive advantage, the service organizations are focusing more on the quality. The concept of quality has drawn massive attention in academic and business circles.

David Garvin identifies **five** perspectives on quality:

1.   The transcendent view of quality is synonymous with innate excellence; a mark of uncompromising standards and high achievements. This view point is often applied to the performing and visual arts. It argues that people learn to recognize quality only through the experience gained from repeated exposure. From a practical stand point, however, suggesting that managers or customers will know quality when they see it is not very helpful.

2.   The product-based approach sees quality as a precise and measurable variable. Differences in quality it argues, reflects differences in the amount of an ingredient or attribute possessed by the product. Because

this view is totally objective, it fails to account for difference in the tastes, needs, and preferences of individual customers.

3. The premise that quality lies in the eyes of the beholder is the basis for user-based definitions. These definitions equate quality with maximum satisfaction. This demand-oriented, subjective perspective recognizes that the wants and needs of each customer is different.

4. The manufacturing oriented approach is basically supply based and is concerned with engineering and manufacturing practices. The manufacturing based approach focuses on conformance to internally developed specifications, which are often driven by productivity and cost-containment objectives.

5. Quality is defined in terms of value and price by value-based definitions. Quality comes to be defined as affordable excellence by considering the trade off between performance and price.

These views of David Garvin help us to explain the conflicts that arise between managers in different functional areas. In many senses quality is subjective. For many people quality implies excellence or luxury. Quality can also be measured in terms of fitness for purpose. In seeking quality service, customer needs and expectations may vary.

11.3 QUALITY IN SERVICES

Service quality is the degree of excellence and perfection achieved in performing a service. Quality in services is basically a customer-oriented phenomenon. It must begin with customer needs and end with customer satisfaction. Customers are satisfied when their expectations are met, and delighted when their expectations are exceeded. Quality of service is the key to creating customer value and satisfaction. Quality is achieved when customers are provided with the best solutions or the best value for money.However, the most commonly accepted definition of service quality is:

Service quality is the delivery of excellent or superior service relative to customer expectations. - **Zeithaml and Bitner**

This is the simplest way to understand service quality, although this definition is far from being adequate. In general terms, quality is defined as 'conformance to standards'. Quality is subjective and hence it is difficult to give a précis definition. However, the quality of services is the degree of conformance of all the relevant features and characteristics of service to all the aspects of the customer's needs limited by the price and delivery he or she will accept. Service quality when defined in terms of customer satisfaction is the degree of conformance of the perceptions of the service received to the expectations of the service desired. It is the totality of the features and characteristics of a service that bear on its ability to satisfy-stated or implied customer needs. The nature and characteristics of services can have an impact on quality issues.

➢ The intangibility of many services means that, it can be very difficult for service quality to be measured and assessed.

- ➤ Inseparability of the service itself from the service provider highlights the role of people in the service transaction and their influence on quality levels.

- ➤ The heterogeneous nature of services means that a service is never exactly repeated and will always be variable to some extent.

- ➤ The perishable nature of services can lead to customer dissatisfaction if demand cannot be met.

Service quality may be judged from: -

1. Design reflected through the relevant features and characteristics of services

2. Satisfaction of customers' needs and

3. Production and delivery of the service.

Service quality is of fundamental importance in the design of service product. More than any other factor service organizations are likely to be judged by the quality of service provided. Basic marketing decisions thus have to be made on service quality because:

1. Quality will influence the volume of demand for a service and

2. Quality will be a major positioning tool in relation to other competitors in the market place.

11.4 CONCEPT AND IMPORTANCE

The role of marketing in developing service quality is an important one. The needs and expectations of the consumers are critical factors in assessing service quality. A marketing and customer orientation throughout the organisation can ensure that service providers get close to the customers, thus ensuring that service delivery meets customer expectations. The customer, in terms of their expectations of the benefits, may judge the actual output of the service. This leads to an important idea in assessing quality from a service marketing perspective that is, perceived service quality.

Perceived service quality represents the judgments of customers of an organisation's service based on their overall experience of the service encounter. Understanding how customers arrive at this judgment is very important for service marketing management. It has been indicated that customers make these decisions using a number of key criteria to judge the services. These factors relate to areas covered by the extended services marketing mix namely people, process and physical evidence. These can be broadly categorized as follows:

People:

- ➤ Credibility, professionalism, efficiency, courtesy

- ➤ Approachability, accessibility, good communications

- ➤ Identifying and understanding customer needs

Process:

- ➢ Time keeping, dependability, trusted performance levels
- ➢ Promptness, efficiency

Physical Evidence:

- ➢ Appearance of tangible aspects of the services
- ➢ Physical surroundings, smartness

11.5 SERVICE QUALITY MODELS

Customers' expectations of a service are based on their personal needs, what they have heard about the service from other people and their past experience from the firm and its competitors. Service quality model describes how to achieve desired quality in services. Achievement of desired quality in services differs from tangible products, because the evaluation is based on expectations and attitudes more than data about reliability. There are multiple service quality models. The most popular are described below.

➢ **GAP model on managing service quality:** GAP is a method to identify and solve problems related to quality of services. It was presented by A. Parasuraman, V. Zeithaml and L. Berry in 1988. The main idea is based on 5 gaps, which result in lower than expected quality of services. The method was one of the first tools created to evaluate and improve quality of services. Therefore, is become popular very soon.
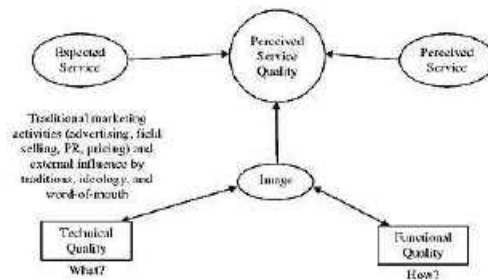
The 5 gaps are:

1. Expected service vs. management perception
2. Management perception vs. Service design
3. Service design vs. Service delivery
4. Service delivery vs. Communication
5. Expected vs. perceived service

➢ **SERVPERF model:** SERVPERF (Service Performance) was created on basis of critique of SERVQUAL by J.J. Cronin and S.A. Taylor in 1994. They claimed that Parasuraman's study of relations between expected and experienced quality is not proper approach to quality assessment. The SERVPERF measures quality as an attitude, not satisfaction. However it uses an idea of perceived service quality leading to satisfaction. But it goes further, and connects satisfaction with further purchase intentions. The SERVPERF is a modification of SERVQUAL, and thus uses the same categories to assess service quality (RATER model).

➢ **SERVQUAL or RATER model:** RATER model is an evolution of SERVQUAL method presented by A. Parasuraman, V. Zeithaml and L. Berry in 1988. The main idea is based on 5 gaps, which result in lower than expected quality of services. The authors proposed that the difference

between expected and perceived quality should be evaluated in 5 dimensions:

1. Reliability; 2. Assurance; 3.Tangibles; 4.Empathy; 5. Responsiveness

- ➤ **Grönroos model:** Grönroos identified three dimensions of service quality: technical, functional and image. The model was shown on figure.

    1. **Technical quality** - what customer receives as a result of interaction with the company, and which is important for him/her to evaluate the quality of service.

    2. **Functional quality** - how the customer gets the technical outcome, which includes: communication, competence, staff, etc.

    3. **Image** - builds up through technical and functional perfection.

11.6 GAP MODEL

It is also known as **SERVQUAL** or service quality gap model. The Gap Model of Service Quality (the Customer Service Gap Model or the 5 Gap Model) is a framework which can help us to understand customer satisfaction. Delivering superior value to the customer is an ongoing concern of Product Managers. This not only includes the actual physical product but customer service as well. Products that do not offer good quality customer service that meets the expectations of consumers are difficult to sustain in a competitive market. Service quality gap model is a gap method in service quality measurement, a tool that can be used by Product Manager across all industries. The aim of this model is to:

- ➤ Identify the gaps between customer expectation and the actual services provided at different stages of service delivery

- ➤ Close the gap and improve the customer service

This model developed by *A. Parasuraman, Valarie Zeithaml,* and *Leonard L. Berry* in 1985 identifies **five different gaps**:

1. **THE CUSTOMER GAP:** *The Gap between Customer Expectations and Customer Perceptions:* The customer gap is the difference between customer expectations and customer perceptions. Customer expectation is what the customer expects according to available resources and is influenced by cultural background, family lifestyle, personality, demographics, advertising, experience with similar products and information available online. Customer perception is totally subjective and

is based on the customer's interaction with the product or service. Perception is derived from the customer's satisfaction of the specific product or service and the quality of service delivery. The customer gap is the most important gap and in an ideal world the customer's expectation would be almost identical to the customer's perception. In a customer orientated strategy, delivering a quality service for a specific product should be based on a clear understanding of the target market. Understanding customer needs and knowing customer expectations could be the best way to close the gap.

2.   **THE KNOWLEDGE GAP:** *The Gap between Consumer Expectation and Management Perception:* The knowledge gap is the difference between the customer's expectations of the service provided and the company's provision of the service. In this case, managers are not aware or have not correctly interpreted the customer's expectation in relation to the company's services or products. If a knowledge gap exists, it may mean companies are trying to meet wrong or non-existing consumer needs. In a customer-orientated business, it is important to have a clear understanding of the consumer's need for service. To close the gap between the consumer's expectations for service and management's perception of service delivery will require comprehensive market research.

Essentially, this gap arises because management doesn't know exactly what customers expect. There are a number of reasons this could happen, including:

➤   Lack of management and customer interaction.

➤   Lack of communication between service employees and management.

➤   Insufficient market research.

➤   Insufficient relationship focus.

➤   Failure to listen to customer complaints.

Example: If Netflix were to suffer from this gap then it could be because they don't offer the right amount of newer titles to their customer. If Pizza hut were to suffer from this gap then it could be because they don't offer pecan pie. In both cases, customers expect these things but they simply aren't offered.

3.   **THE POLICY GAP:** *The Gap between Management Perception and Service Quality Specification:* According to Kasper et al, this gap reflects management's incorrect translation of the service policy into rules and guidelines for employees. Some companies experience difficulties translating consumer expectation into specific service quality delivery. This can include poor service design, failure to maintain and continually update their provision of good customer service or simply a lack of standardisation. This gap may see consumers seek a similar product with better service elsewhere. There are a number of reasons why this gap can occur:

- ➢ Lack of customer service standards.
- ➢ Poorly defined service levels.
- ➢ Failure to regularly update service level standards.

Example: If Netflix were to suffer from this gap then it could be that they offer all the right shows but the streaming quality level isn't high enough. If Pizza hut where to suffer from this gap then it could be they offer pecan pie but the quality isn't as good as people expect. This gap causes customers to seek a similar service elsewhere but with better service.

4. **THE DELIVERY GAP:** *The Gap between Service Quality Specification and Service Delivery:* This gap exposes the weakness in employee performance. Organisations with a Delivery Gap may specify the service required to support consumers but have subsequently failed to train their employees, put good processes and guidelines in action. As a result, employees are ill equipped to manage consumer's needs. Some of the problems experienced if there is a delivery gap are:

- ➢ Employees lack of product knowledge and have difficulty managing customer questions and issues
- ➢ Organisations have poor human resource policies
- ➢ Lack of cohesive teams and the inability to deliver

Example: If Netflix were to suffer from this gap then it could be because when the customer selects the show they want to watch it takes five minutes before it starts to play. In this case, the product isn't performing as it should. If Pizza hut were to suffer from this gap then it could be that when the customer orders the pecan pie they are informed that the kitchen has run out. In this case, supply hasn't been adequately matched to demand.

5. **THE COMMUNICATION GAP:** *The Gap between Service Delivery and External Communications:* In some cases, promises made by companies through advertising media and communication raise customer expectations. When over-promising in advertising does not match the actual service delivery, it creates a communication gap. Consumers are disappointed because the promised service does not match the expected service and consequently may seek alternative product sources. Again there are a number of reasons why this can happen:

- ➢ Overpromising.
- ➢ Viewing external communications as separate to what's going on internally.
- ➢ Insufficient communications between the operations and advertising teams.
- ➢ Communication gaps lead to customer dissatisfaction. This happens because what they receive isn't what they were promised. In the worst case, it may cause them to turn to an alternative supplier.

Example: If Netflix were to experience this gap then it could be because that although the service is good it isn't as good or as easy to use as depicted in the advert. If Pizza hut were to suffer from this gap then it could be because the pecan pie was good but it wasn't as large or delicious as it looked in the advert.

USING THE MODEL TO ADDRESS GAPS

The Gap Model of Service Quality is a framework which can help us to understand common customer satisfaction issues. To use the model, companies should measure each gap and take steps to reduce them where necessary.

Gap 1: The Customer Gap: This gap can only be closed by closing the other four gaps in the model. Once this is done then customer expectations and customer perceptions should align.

Gap 2: The Knowledge Gap: Close this gap by learning what customers expect. Options to consider include:

➢ Using customer research.

➢ Increasing interactions between management and customers.

➢ Increasing interactions between management and service staff.

➢ Act on other customer insights you receive once validated.

Gap 3: The Policy Gap: Close this gap by creating the right service quality standards. Options to consider include:

➢ Ensure a good proportion of senior management remuneration is aligned to service quality.

➢ Set, communicate and reinforce quality standards.

➢ Set measurable service quality goals.

➢ Train managers to be service quality leaders.

➢ Update policies regularly.

➢ Reward staff for the achievement of quality goals.

Gap 4: The Delivery Gap: Close this gap by ensuring that performance meets set standards. Options to consider include:

➢ Train employees.

➢ Empower employees.

➢ Provide the right technology, tools, and equipment.

➢ Focus on internal marketing.

➢ Take steps to retain high-performing employees.

Gap 5: The Communication Gap: Close this gap by ensuring the product or service delivered matches and promises made. Options to consider include:

➢ Getting employee input to your advertising campaigns.

➢ Use reality advertising by using real customers, real reviews, and real employees etc.

➢ Ensure advertising campaigns are signed off by the operations team.

➢ Manage customer expectations realistically.

11.7 SUMMARY

Quality is subjective and hence it is difficult to give a précis definition. In general terms, quality is defined as 'conformance to standards. The needs and expectations of the consumers are critical factors in assessing service quality. Customer expectations of service are based on their personal needs, what they have heard about the service from other people and their past experience from the firm and its competitors.

There are multiple service quality models. The most popular are: GAP model on managing service quality: The main idea is based on 5 gaps, which result in lower than expected quality of services. The 5 gaps are Expected service vs. management perception, Management perception vs. Service design, Service design vs. Service delivery, Service delivery vs. Communication and the Expected vs. perceived service.

11.8 SELF-ASSESSMENT QUESTIONS

1. What are the underlying themes of service quality? Suggest illustrations of each theme.

2. Define the five dimensions of service quality. Give an example of each dimension.

3. Explain how a manager might use the conceptual model of service quality to improve the quality of his or her own firm

4. What factors contribute to the size of the knowledge gap?

5. How does the communication gap relate to success in e-business?

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UNIT-12   SERVICE QUALITY MODELS

UNIT FRAMEWORK

12.1   Objectives

12.2   Introduction

12.3   Service Quality Models

12.4   SERVQUAL Model or Parasuraman, Zeithaml, and Berry (PZB) Model

12.5   SERVPERF Model

12.6   Gronroos Model

12.7   Summary

12.8   Self-Assessment Questions

12.9   Text and References

12.1 OBJECTIVES

After completing this unit you will be able to:

 ➢ to explain the service quality models

 ➢ to elaborate different service quality models: SERVQUAL or Parasuraman; Zeithaml and Berry (PZB)

 ➢ to know the Gaps model and SERVPERF model.

 ➢ to discuss the Gronroos model.

12.2 INTRODUCTION

Service quality is very important for customers as well as service providers. To achieve competitive advantage, the service organizations are focusing more on the quality. The concept of quality has drawn massive attention in academic and business circles.

For many people quality implies excellence or luxury. Quality can also be measured in terms of fitness for purpose. In seeking quality service, customer needs and expectations may vary. Service quality is not easy to measure in precise manner. The nature and characteristics of services can have an impact on quality issues.

 ➢ It is very difficult to measure and assess the service quality because of the **Intangibility** of many services.

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> **Inseparability** of the service from the service provider highlights the role & influence of the people in the service transaction, and on quality levels.

> A service is never exactly repeated and will always be variable to certain extent because of the **heterogeneous** characteristic of service.

> The **perishable** nature of services can lead to customer dissatisfaction if demand cannot be met.

The most appropriate approach in defining and measuring service is the user-based approach. The idea that quality is subjective and will be strongly linked to the individual's needs and expectations recognizes that customers have different criteria for judging service quality. This user-based approach equates quality with maximum levels of satisfaction.

The role of marketing in developing service quality is an important one. The needs and expectations of the consumers are critical factors in assessing service quality. A marketing and customer orientation throughout the organisation can ensure that service providers get close to the customers, thus ensuring that service delivery meets customer expectations. The customer, in terms of their expectations of the benefits, may judge the actual output of the service. This leads to an important idea in assessing quality from a service marketing perspective that is, perceived service quality.

12.3 SERVICE QUALITY MODELS

Customers' expectations of a service are based on their personal needs, what they have heard about the service from other people and their past experience from the firm and its competitors. Service quality model describes how to achieve desired quality in services. Achievement of desired quality in services differs from tangible products, because the evaluation is based on expectations and attitudes more than data about reliability. There are multiple service quality models. The most popular are described below.

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The 5 gaps are:

1. Expected service vs. management perception

2. Management perception vs. Service design

3. Service design vs. Service delivery

4. Service delivery vs. Communication

5. Expected vs. perceived service

- **SERVPERF model:** SERVPERF (Service Performance) was created on basis of critique of SERVQUAL by J.J. Cronin and S.A. Taylor in 1994. They claimed that Parasuraman's study of relations between expected and experienced quality is not proper approach to quality assessment. The SERVPERF measures quality as an attitude, not satisfaction. However it uses an idea of perceived service quality leading to satisfaction. But it goes further, and connects satisfaction with further purchase intentions. The SERVPERF is a modification of SERVQUAL, and thus uses the same categories to assess service quality (RATER model).

- **SERVQUAL or RATER model:** RATER model is an evolution of SERVQUAL method presented by A. Parasuraman, V. Zeithaml and L. Berry in 1988. The main idea is based on 5 gaps, which result in lower than expected quality of services. The authors proposed that the difference between expected and perceived quality should be evaluated in 5 dimensions:

  1. Reliability; 2. Assurance; 3.Tangibles; 4.Empathy; 5. Responsiveness

- **Grönroos model:** Grönroos identified three dimensions of service quality: technical, functional and image. The model was shown on figure.

  1. **Technical quality** - what customer receives as a result of interaction with the company, and which is important for him/her to evaluate the quality of service.

  2. **Functional quality** - how the customer gets the technical outcome, which includes: communication, competence, staff, etc.

  3. **Image** - builds up through technical and functional perfection.

12.4 SERVQUAL MODEL

According to A. Parasuraman, V.A.Zeithaml, and L.L.Berry, it is during the service delivery that the quality of services is assessed and the contact with each customer implies as a chance to satisfy or dissatisfy the customer, a moment of truth. They defined customer satisfaction with regards to service as 'by comparing perceptions of service received with expectations of service desired.' They also mentioned that an excellent quality of service is perceived when expectations are exceeded and on the other hand, service quality is considered as unacceptable when expectations are not met. Lastly, quality is satisfactory when perceived service confirmed expectations. Parasurama, Zelthaml& Berry mentioned that service quality can be assessed through the following ten criteria and dimensions; Reliability, Responsiveness, Competence, Accessibility, Courtesy, Communication, Credibility, Security, Understanding/ knowing the customer, Tangibility.

In addition, Parasuraman, Zeithaml, and Berry (**PZB's**1988) introduced only five dimensions that is, the ten dimensions have been integrated in only five ones which led to the development of **SERVQUAL** model which consists of two words 'Service' and 'Quality'. Researchers agreed that these dimensions (which are often referred as **RATER**) are appropriate to help in revealing customers'

expectations and perceptions which are as follows:

1. **Reliability:** This implies the capacity of the service firm to deliver the promised service dependably and accurately. It means that the same service is performed every time, on time, in the same way and without mistakes.

2. **Assurance:** This means the knowledge that the providers possess which enables them to perform the service competently. It also includes courtesy aspects such as politeness and respect for customers. This conveys trust and confidence and generally convinces the customer that the service provider has the customer's best interest at heart.

3. **Tangibles:** This includes the overall appearance of the surroundings, equipment, information materials and personnel. This can be visible evidence of the care and attention to details shown by service firm.

4. **Empathy:** It basically means the power of understanding the customer's feelings and needs which allows the server to care for him and provide personal attention to him. Due to this a customer feels that he can approach the server with confidence and has a feeling of security.

5. **Responsiveness:** This refers to the willingness to help customers and provide prompt service. Customers do not like to wait unnecessarily and if it happens it reflects badly on the quality of service. Similarly in case of service failure, the ability of the firm to respond professionally and quickly can create a good impact on service quality.

Service quality has two important implications for the organization providing the service. First, decisions must be made on the basic level of quality, which will be provided to match the quality, which is expected by consumers. Secondly, decisions have to be made on the management of quality over time. These decisions have significant influence on the service offerings in the long term.

Limitations of SERVQUAL:

SERVQUAL is an excellent instrument for measuring service quality is not free from several limitations. The service providers must be well versed with the limitations of the instrument and also the gap theory methodology on which it is based. The major limitations of the SERVQUAL instrument are discussed below:

1. The SERVQUAL measures the expectations of the customers in an ideal firm in a particular service industry. This may or may not be relevant to the capabilities of a particular service firm or the group of service firms available to a customer.

2. Another frequent criticism of the SERVQUAL instrument is its generic nature. Since it is not industry particular, it does not assess variables which may be industry specific.

3. Length of the SERVQUAL questionnaire is another major issue of criticism. A combination of perception and expectation items of

SERVQUAL results in a 44 item survey instrument. The argument is that the different items are highly repetitive and unnecessarily increase the length of the questionnaire. Further argument is that the expectations section of the instrument is of no real value and that the perceptions section along should be used the measure the service quality.

4. Another limitation of SERVQUAL instrument related with the gap methodology used for assessing the level of service quality. Evaluating consumer expectations after a service has been provided will bias the responses of consumers. If the customers had a positive experience, they will tend to report lower scores for their expectations, so there is a measurable gap between what they expected and the service they received. If customer had a negative experience, the opposite occurs. Customers tend to report higher scores for their expectations, so there would be a negative gap between expectations and perceived level of service.

5. Another frequent criticism of the SERVQUAL instrument is that the five proposed dimensions of service quality - reliability, responsiveness, assurance, empathy and tangibles- do not hold up under statistical scrutiny. Consequently, opponents of SERVQUAL question the validity of the specific dimensions in the measurement instrument.

6. The sixth major criticism of SERVQUAL related to the instrument's ability to predict consumer purchase intentions. Research has indicated that the perception section alone of the SERVQUAL scale is a better predictor of purchase intentions than the combined expectations-minus-perception instrument. The SERVQUAL instrument is criticized on the point that the satisfaction has a more significant effect on purchase intentions than does service quality.

Concluding Remarks about SERVQUAL instrument:

1. **The relevance of employees of customer relations department:** The SERVQUAL instrument highlights many important points that service providers should consider while examining service quality. The attitudes and performance of customer relations executives determine heavily the perceptions of customers about the services. The interaction between employees and the customers directly determine the responsiveness, empathy and assurance dimensions. The tangible dimension depends partly on the appearance & dress of the employees of the service provider.

2. **Process is equally important as outcome:** The customers judge the service based on the final outcome and also the process through which the service passes through. The nature and frequency of the service is also important in addition to its delivery. Finally the customer satisfaction depends on the production and consumption of the services.

3. **Difficulty in predicting consumer perceptions:** There are several factors outside the control of the organization that may not be readily apparent, but the ratings of service quality dimensions will be influenced to a large extent by such factors.

Despite its limitations SERVQUAL continue to be a frequently used instrument to measure service quality and is presently being modified to take into consideration the service quality issues in e-business. When used in conjunction with other forms of measurement, SERVQUAL provides a valuable diagnostic tool for measuring the firm's service quality performance.

12.5 SERVPERF MODEL

SERVPERF (Service Performance) was created on basis of critique of SERVQUAL by J.J. Cronin and S.A. Taylor in 1994. They claimed that Parasuraman's study of relations between expected and experienced quality is not proper approach to quality assessment. Evaluation of service quality is difficult, because of the difference between quality perceived by customer and expected by him/her. Parasuraman, Zeithaml and Berry in 1988 proposed SERVQUAL model which described five gaps between those two visions of quality. Elimination of those gaps should help the organization to improve service quality.

This approach is inconsistent with some research results, which show that customer's expectations should be based on experiences. What's more, higher level of perceived service quality only sometimes is a cause of increased consumer satisfaction. In many cases, the satisfaction is an antecedent of service quality.

According to Boldon and Drew, perceived service quality (Attitude$_t$) is a function of residual perception of the service's quality (Attitude $_{t-1}$) and level of (dis)satisfaction of the current service performance (CS/D$_t$).

Attitude$_t$ = f (CS/D$_t$; Attitude $_{t-1}$)

Service quality is then a function of Disconfirmation, Expectations and Performance:

Service Quality = f (Disconfirmation; Expectations; Performance)

Cronin and Taylor proposed modification of SERVQUAL based on analysis of 730 enterprises offering different areas of services (banks, pest control, dry cleaning, fast food).

The SERVPERF measures quality as an attitude, not satisfaction. However it uses an idea of perceived service quality leading to satisfaction. But it goes further, and connects satisfaction with further purchase intentions. The SERVPERF is a modification of SERVQUAL, and thus uses the same categories to assess service quality (RATER model):

- ➢ Tangibles
- ➢ Reliability
- ➢ Responsiveness
- ➢ Assurance
- ➢ Empathy

In each of the categories there are statements that are evaluated on 7 step Likert scale. The SERVQUAL proposed 44 statements (expectations and performance related), while SERVPERF only 22 (performance related).

Key findings of the study: Uses only the perceptions part of the SERVQUAL scale. Measures service quality experiences only and not customer expectations as well. It directly reduces the number of items by 50 %.

Limitations/suitability for this study: The model will be considered for this study because the five dimensions suits the landlord-small business tenant relationship in shopping centre's. By measuring only the perceptions, will make the questionnaire less complicated and more economical to administer.

12.6 GRONROOS MODEL
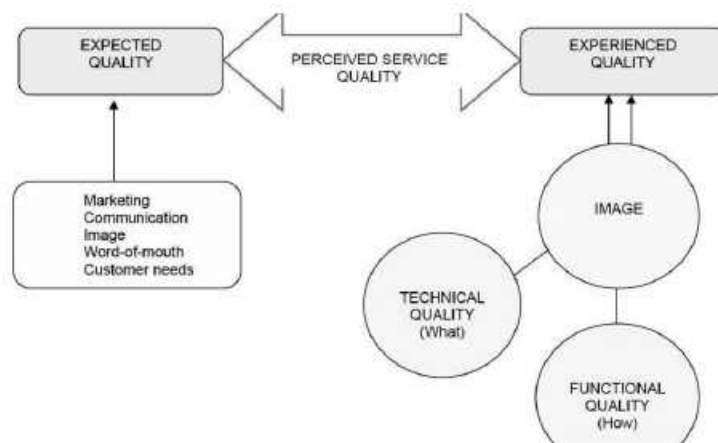
GRONROOS (1984:36), one of the leaders in the Nordic school of thought with regard to the service literature, states that a proper conceptualization of service quality should be customer-based. The customer's perceptions of service quality are therefore the main feature in his service quality model and secondly, the determinants of what influence service quality are also included. The model emphasizes (see following figure) that the interaction between the buyer and seller in a service setting is as important as the eventual outcome. The basic principle in his model is that service quality is dependent on the comparison of two variables: the expected service from customers and the actual service as perceived by them. The outcome of this comparison process will then be the perceived quality of the service (following figure on the next page illustrates this model). It should be noted however, that this model measures service quality through performance scores only after recognizing the difficulties in making independent measurements of customer's expectations.

THE SERVICE QUALITY MODEL OF GRONROOS

Gronroos suggests that performance evaluations comprise of two dimensions, namely a technical or outcomes dimension and a functional or process-related dimension. It will not only be the outcome of a service (technical dimension), but also the manner in which a service is performed (functional dimension) that exert an influence on the customers' perception of a service, although the latter will be based on a rather subjective evaluation.

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The above figure also shows that Gronroos believes that a third dimension, namely a firm's corporate image, exerts an influence on perceived service quality. Several factors can influence this image, like the technical and functional quality, price, external communications, and physical location, appearance of the site and the competence and behaviour of service firms' employees.

It is important to note that these various quality dimensions are interrelated. It can be argued that acceptable technical quality can be thought of as a prerequisite for successful functional quality. Later, Gronroos adds to the model by including six criteria of good perceived service quality, based on previous empirical and conceptual research and existing knowledge on how service quality is perceived. He classifies each of these six criteria into his three-dimensional service quality model. The first of these criteria, professionalism and skills, is outcomes-related and is therefore a technical quality dimension. The last criterion, reputation and credibility, is image related and will fulfill a filtering function. The other four criteria, namely attitudes and behaviour, accessibility and flexibility, reliability and trustworthiness, and recovery, are all process-related and represent therefore the functional quality dimension.

12.7 SUMMARY

Quality is subjective and hence it is difficult to give a précis definition. In general terms, quality is defined as 'conformance to standards. The needs and expectations of the consumers are critical factors in assessing service quality. Customer expectations of service are based on their personal needs, what they have heard about the service from other people and their past experience from the firm and its competitors.

SERVQUAL or RATER model: The main idea is also based on 5 gaps, which result in lower than expected quality of services. The authors proposed that the difference between expected and perceived quality should be evaluated in 5 dimensions namely Reliability, Assurance, Tangibles, Empathy and Responsiveness.

SERVPERF model: The SERVPERF measures quality as an attitude, not satisfaction. However it uses an idea of perceived service quality leading to satisfaction. But it goes further, and connects satisfaction with further purchase intentions.

Grönroos model: Grönroos identified three dimensions of service quality: technical, functional (communication, competence, staff, etc.) and image.

12.8 SELF-ASSESSMENT QUESTIONS

1. What are the underlying themes of service quality? Suggest illustrations of each theme.

2. What are the criticisms of SERVQUAL? What are its developer's responses to these criticisms?

3. If you were the manager of a service organization and wanted to apply the gaps model to improve service, which gap would you start wish? Why? In what order would you proceed to close the gaps?

4. Which of the four gaps do you believe is the hardest to close? Why?

5. Choose an organization to interview, and use the integrated gap model of service quality as a framework. Ask the manager whether the organization suffers from any of the factors listed in the figures in this chapter.

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BLOCK

4

SERVICES SECTOR : DELIVERY ISSUES

ETH-103 / ETH-085

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ETH-103 / ETH-085

BLOCK INTRODUCTION

In **Block 4** you have learnt about the industrial & service marketing; distribution strategies for services, role of internet in distribution of services, marketing applications in select service industries and retaining customers.

Unit 13 discusses about distribution strategies for services: challenges in distribution of services.

Unit 14 explains role of internet in distribution of services; e-services.

Unit 15 deals with marketing applications in select service industries: hospitality services; airlines; tourism services; health care and wellness; banking and insurance services.

Unit 16 deals with retaining customers, concepts, process relevance for organization, strategies, merits and demerits.

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UNIT-13   DISTRIBUTION   STRATEGIES FOR SERVICES

UNIT FRAMEWORK

13.1 OBJECTIVES

After completing this unit you will be able to:

➢   to explain the distribution strategies for services

➢   to elaborate different challenges in distribution of services

➢   to know the factors that affect distribution channel strategy

➢   to examine the distribution channel conflicts

➢   to discuss the reasons for an improper service delivery.

13.2 INTRODUCTION

Manufacturer has to create their product offering and distribute to the end users. Often the manufacturer and the customers are far apart and are not known to each other directly but through the intermediaries. These intermediaries are useful link between customers and the service providers. They not only help manufacturers or service providers to connect to customers for delivery of their offerings, they also have several useful functions for both customers and businesses. Manufacturer use these intermediaries who have knowledge of market and customers buying habits to gain valuable insight of market. Customers also take advantage of these middle layer and get to know about the best solutions available to them in the market that are at a convenient distance from them or at their doorstep.

The characteristics of services pose several challenges in the delivery of services to final customers. From previous chapters we have learnt that the services cannot be produced beforehand and delivered at a shot. It involves the participation of customers while they are being served. Thus the channel ultimately has to bring the customer at the doorstep of the manufacturer of the services. The intermediary of services delivery channel has a limited but much significant role than an intermediary of the tangible product, it can act as an information provider, persuader, collection agent and after sale service provider.

The role and the channel structure of the intermediary, the type of conflicts as well as the overall management in the services sector is the subject matter of this chapter.

13.3 DISTRIBUTION STRATEGIES FOR SERVICES

Firms must carefully choose how and where their goods reach consumers by managing their distribution channels. A distribution channel can be defined as an organization system of marketing institutions and their inter-relationships that promote the physical and title flow of goods and services from producers to consumers. It overcomes the major time, place and possession gaps that separate goods and services from those who would use them. It provides ultimate users with convenient ways to obtain the goods and services they desire. The choice of distribution channels should support the firm's overall marketing strategy. Figure 5 shows the various members and flows in marketing channels.

Consider for example, the distribution channel of Air Deccan, India's leading low-cost airliner. Apart from directly selling a ticket (e-ticket) from the airline's website, www.airdeccan.net, it also sells through an arrangement with Reliance Web World (a chain of Internet cafés) and Indian Oil retail outlets (petrol bunks). There is a limited, if not, full scale distribution, through the travel agents also. As a result, Air Deccan uses multiple channels.

13.3.1 CHANNEL FUNCTIONS

The marketing literature identifies the following as the functions performed by the members of the marketing channel:

1. **Information:** gathering and distributing marketing research and intelligence information about the marketing environment

2. **Promotion:** developing and spreading persuasive communications about an offer

3. **Contact:** finding and communicating with prospective buyers

4. **Matching:** shaping and fitting the offer to the buyer's needs, including such activities such as manufacturing, assembling and packaging

5. **Negotiation:** agreeing on price and other terms of the offer so that ownership or possession can be transferred

6. **Physical distribution:** transporting and storing goods

7. **Financing:** acquiring and using funds to cover the costs of channel work

8. **Risk taking:** assuming financial risks such as the inability to sell inventory at full margin.

The first five functions help to complete transactions. The last three help to fulfill the completed transactions. All these functions have three things in common:

➢ They use scarce resources

➢ They can often be performed better through specialization

➢ They can be shifted among channel members

Shifting functions to the channel members may keep producer costs and prices low, but channel members must add a charge to cover the cost of their work. To keep costs low, functions should be assigned to channel members who can perform them most efficiently.

13.3.2 SERVICE INTERMEDIARIES

In a typical service marketing context, two service marketers are involved in delivering service through intermediaries: the service principal (originator) and the service deliverer (intermediary). For example, in the fast food industry, Pizza Hut is the service principal and the outlet in Pondicherry run by a franchisee is the service deliverer. Service intermediaries perform important functions for the service principal. They often coproduce the service, fulfilling service principal's promises to customers. In contrast to channels for products, channels for services are almost always direct, if not to the customer then to the intermediary that sells to the customer. Because services cannot be owned, there are no titles or rights to most services that can be passed along a delivery channel. Because services are intangible and perishable, inventories cannot exist, making warehousing a dispensable function. In general, because services cannot be produced, stored and then retailed as goods can many channels available to product firms are not feasible for service firms. Many of the primary functions of channel members have no meaning in services. The focus in service distribution is on identifying ways to bring the customer and principal or its representative together.

13.3.3 SERVICE CHANNEL OPTIONS

The options for service distribution are limited to franchisees, agents, brokers and electronic channels.

➢ Franchisees are service outlets licensed by a principal to deliver a unique service concept it has created or popularized (Example: fast-food chains like McDonald's)

➢ Agents and brokers are representatives who distribute and sell the services of one or more service suppliers (Example: Insurance agents)

➢ Electronic channels include all forms of service provision through television, telephone, interactive media and the Internet. (Example: a hotel website facilitating online reservation)

13.4 CHALLENGES IN DISTRIBUTION OF SERVICES

The following table highlights the benefits and challenges in the service channel options.

Table: 13.1 **Benefits and challenges** in service channel options

Benefits	Challenges
Through franchising:- **For franchisers:** 1. Leveraged business format for greater expansion and revenues 2. Consistency in outlets 3. Knowledge of local markets 4. Shared financial risk and more working capital	1. Difficulty in maintaining and motivating franchisees 2. Highly publicized disputes and conflict 3. Inconsistent quality 4. Control of customer relationship by intermediary
For franchisees: 1. An established business format 2. National or regional brand marketing 3. Minimized risk of starting a business	1. Encroachment and High fees 2. Disappointing profits and revenues 3. Lack of perceived control over operations
Through agents and brokers:- 1. Reduced selling and distribution costs 2. Intermediary's possession of special skills and knowledge 3. Wide representation and Customer choice 4. Knowledge of local markets	1. Loss of control over pricing and other aspects of marketing 2. Representation of multiple service principals
Through electronic channels:- 1. Consistent delivery for standardized services 2. Low cost 3. Customer convenience 4. Wide distribution 5. Customer choice and ability to customize	1. Customers are active, not passive 2. Lack of control of the electronic environment 3. Price competition and Security concerns 4. Inability to customize with highly standardized services

6. Quick customer feedback	5. Lack of consistency due to customer involvement
	6. Requires changes in consumer behaviour
	7. Competition from widening geographies

The service principals face the following problems in distributing services through electronic channels:

1. **Customers are active not passive and must be enticed:** Traditional advertising media such as magazines consider the customer a passive receiver of their messages. A customer reading an article is most likely to see the advertisement. But the user of the web is different. The aim of advertising should be to educate, entertain and entice the customer. By reading the marketer's information, customer must know the benefits of services clearly. So, "permission-based marketing" is a new method used to attract customers to websites. The services firm designs games, offers prizes, creates contests and sends customers to websites. This helps the advertisers build relationships with customers.

2. **Lack of control of the electronic equipment:** Electronic equipment's are used in an unregulated medium. Care should be taken to separate the irrelevant, unwanted material from the useful content. For example, advertising for banking services should be separated from the numerous advertisements for 'balding concealment devices' and 'quick weight loss programmes. In print media, the advertiser can request for right positioning. Such requests are not possible on the internet.

3. **Price competition:** It is difficult to compare features and price of services. But the internet makes it simple for customers to compare prices for a wide variety of services. For example, priceline.com allows customers to name their prices for a service such an airline ticket. So, customers at present, have the ability to bid on prices for services. Online services enable customers to download hundreds of service offerings along with particulars. So, the service providers encounter challenges in the form of price competition.

4. **Inability to customize with highly standardized electronic devices:** It is very difficult to customize the services by using highly standardized electronic services. When electronic media is present, customers cannot directly deal with the service provider and raise points for clarification. The reaction of the audience to the message presented by an electronic vehicle may not always be effective. People may talk among themselves, laugh and criticize. Only two-way video can control the behavior of receivers.

5. **Inconsistency due to customer involvement:** Electronic channels minimize the inconsistency from employees or providers of services. The customer produces the service himself using the technology. While doing

so, if the technology is not user friendly, it may lead to errors or frustration. Using a website for example is not easy as it calls for familiarity with that technology. Moreover, the difficulty encountered by online services is that most customers do not have computers.

6. **Changes are required in consumer behavior:** When a consumer enters a retail store, he can be motivated easily to buy the service. It is because the behavior of customer can be studied and the customer interaction can be modified to instill confidence in him. But for a customer purchasing a service through electronic channels, the method of interaction is different. While using electronic channel, considerable changes are required in some aspects the willingness to search for information, the willingness to perform some aspect of the services themselves, the acceptance of different levels of service, etc. But effecting a behavioral change is not easy. So, service marketers should motivate customers by bringing about changes in the long established pattern of behavior.

7. **Security concerns:** Security of information is a key issue while using electronic channels. This is the major issue confronting the marketers who use electronic channels. Many customers are reluctant to give credit card numbers on the web and internet. Recently, Adam Cohen has outlined reasons for customer reluctance to use the internet.

   They are:

   ➤ Someone might steal your identity

   ➤ You may reveal information about yourself in cyber-space

   ➤ Personal information that we give to a website might be exploited

   ➤ You may enter your credit card number on a fake website

   ➤ A stranger may use your computer to spy on you

   ➤ You may have a cyber-stalker.

8. **Global Competition:** With the advent of electronic channels, services can be purchased from service firms located anywhere in the world. The fact that services could not be transported is no longer valid because of electronic channels. Virtually, all financial services can be bought from institutions in any area. Since customers have unlimited choice among the providers, services are not protected from competition.

13.5 FACTORS THAT AFFECT DISTRIBUTION CHANNEL STRATEGY

Marketing channels can be described by the number of channel levels. Each layer that performs some work in bringing the product and its ownership/consumption closer to the final buyer is a channel level. Because the producers and the final consumer both perform some work, they are part of every channel. The number of intermediary levels (channel members) is used to indicate the length of a channel. As a result, one can have a short or long marketing

channel depending on the number of intermediary levels that exist between the producer and the consumer. The following table describes the factors that affect distribution channel strategy.

Table: 13.2 Factors that affect distribution channel strategy

	Characteristics of short channels	Characteristics of long channels
Market factors	• Business users (B2B) • Geographically concentrated • Extensive technical knowledge and regular servicing required	• Consumers (B2C) • Geographically diverse • Little technical knowledge and regular servicing not required
Product factors	• Large orders • Perishable • Complex • Expensive	• Small orders • Durable • Standardized • Inexpensive
Producer factors	• Manufacturer has adequate resources to perform channel functions • Broad product line • Channel control important	• Manufacturer lacks adequate resources to perform channel functions • Limited product line • Channel control not important
Competitive factors	• Manufacturer feels satisfied with marketing intermediaries performance in promoting products	• Manufacturer feels dissatisfied with marketing intermediaries performance in promoting products

13.6 DISTRIBUTION CHANNEL CONFLICTS

Channel conflict can be defined as any scenario where two different channels compete for the same sale with the same brand. Conflict can take the form of a direct sales force competing with an independent distributor, two different types of competing distributors, two like distributors competing for the same sale, or all of the above. A few facts about achieving an appropriate balance between coverage and conflict:

> Lack of any channel conflict in a marketing strategy usually indicates gaps in market coverage

> Conflict cannot be eliminated. The goal of marketing management must be to optimize market coverage and manage a healthy level of channel conflict so that it does not become destructive

> Market share erosion and declining street prices are evidence that channel conflict is becoming destructive. Channels are responding to excessive competition by de-emphasizing the brand or by giving away too much in order to keep an account

> Every manufacturer will likely face destructive channel conflict at some point. As markets evolve and mature, many manufacturers will be required to add new, lower-cost channels in order to cover all major market segments. Often, destructive conflict arises because changes in the manufacturers go to market strategy lags the market changes associated with market evolution.

Types of Channel Conflict

Before we get into why channel conflict can seriously impact your business, it's necessary to understand the different types of conflict that can occur in the distribution channel. First, let's look at a normal distribution flow. Each layer of the flow is dependent on the next, which is why even the slightest disruption to this process can create conflict throughout the entire distribution network.

The first and most common form of channel conflict is **Vertical Channel Conflict**. This occurs when two parties at different points in the distribution channel have a dispute. Causes of vertical channel conflict can include:

> **Direct and Indirect Sales** – when manufacturers sidestep retailers to sell direct-to-consumer. This can be a common culprit for vertical conflict because it creates competition between manufacturers and retailers that are selling their brands.

> **Over saturation** – when manufacturers allow too many retailers in a given territory to sell their brands. This can ultimately hurt sales and create fierce price competition for retailers.

Next, there's **Horizontal Channel Conflict** which occurs between two parties at the same level in the distribution channel. Causes of horizontal channel conflict can include:

> **Loss Leader** – when one member of the distribution channel significantly lowers the price of a product to drive traffic to their store. This is a tactic retailers use to bring people into their store, then they upsell more expensive products to customers to make back the margin they're losing

on the discounted product. This creates conflict with other retailers because there may be pressure for them to reduce the price of the same product, even if it will have a substantial impact on their profit margin.

> **Turf War** – occurs when multiple wholesalers or retailers are selling in the same territory. Manufacturers may appoint a few wholesalers to the same region or city, but if territories aren't properly set, wholesalers will be battling for sales in the same territory.

Lastly, there's **Multiple Channel Conflict** which occurs when a manufacturer has at least two channels competing for sales of the same brands/products. A manufacturer may be selling their products direct-to-consumer (D2C), while also selling to a wholesaler/retailer. This creates conflict because the manufacturer and retailer may be selling the products to the same markets, but at different prices.

Channel managers often must work to resolve channel conflicts. Distribution channels work smoothly only when members cooperate in well-organized efforts to achieve maximum operating efficiencies, yet channel members often perform as separate, independent and even competing forces. Too often marketing institutions see only one step forward or backward along a channel. They think about their own supplies and customers rather than about vital links throughout the channel. Key problems with intermediaries include channel conflicts over objectives and performance, conflict over costs and rewards, difficulty controlling quality and consistency across outlets, tension between empowerment and control and channel ambiguity.

1. The parties involved in delivering services do not always agree about how the channel should operate. The conflict most often centres on the parties having different goals, competing roles and rights and conflicting views of the way the channel is performing.

2. The monetary arrangement between those who create the service and those who deliver it is a pivotal issue of contention.

3. One of the biggest difficulties for both principals (producers) and their intermediaries (channel members) involves the inconsistency and lack of uniform quality that result when multiple outlets deliver services. When a poor performance occurs in a single outlet, the service principal (who probably has franchised out the service) suffers because the entire brand and reputation are affected and other intermediaries endure negative attributions to their outlets.

4. In many service situations, the principal and the intermediaries attained profits and longevity by the principal's controlling virtually every aspect of the intermediaries businesses. Such control can have negative influences within intermediaries. They think their freedom and creativity is curbed.

5. When the channel is highly empowered, doubt exists about the roles of the service firm and its intermediaries about many marketing activities. It may lead to confusion and cause conflict.

MANAGING THE CHANNEL CONFLICT: In order to overcome the destructive channel conflict, some solutions are listed below:
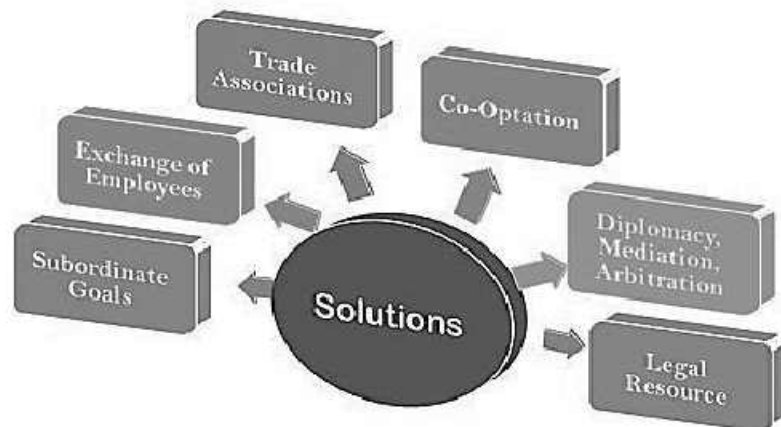
Subordinate Goals: The channel partners must decide a single goal in terms of increased market share, survival, profit maximization, high quality, customer satisfaction, etc. with the intention to avoid conflicts.

> *Exchanging employees*: one of the best ways to escape channel conflict is to swap employees between different levels i.e. two or more persons can shift to a dealer level from the manufacturer level and from wholesale level to the retailer level on a temporary basis. By doing so, everyone understands the role and operations of each other thereby reducing the role ambiguities.

> *Trade associations*: Another way to overcome the channel conflict is to form the association between the channel partners. This can be done through joint membership among the intermediaries. Every channel partner works as one entity and works unanimously.

> *Co-optation*: Under this, any leader or an expert in another organization is included in the advisory committee, board of directors, or grievance redressal committees to reduce the conflicts through their expert opinions.

> *Diplomacy, Mediation and Arbitration*: when the conflict becomes critical then partners have to resort to one of these methods. In Diplomacy, the partners in the conflict send one person from each side to resolve the conflict. In Mediation, the third person is involved who tries to resolve the conflict through his skills of conciliation. In Arbitration, when both the parties agree to present their arguments to the arbitrator and agree to his decision.

> *Legal resource*: When the conflict becomes crucial and cannot be resolved through any above mentioned ways, the channel partners may decide to file a lawsuit.

Thus, it is a fundamental responsibility of every organization to maintain harmonious relations with its channel partners as the conflict between these may result in huge losses for each involved in the channel including the manufacturing or service provider company.

13.7 REASONS FOR AN IMPROPER SERVICE DELIVERY

Sometimes customer service fails because of something you do, other times because of something you're not doing. If you follow my work, this may seem like a review, yet we must constantly be reminded of **these reasons**. So while there are many, here are the 10 most common **reasons** that companies fail at customer service:

1. **They don't define customer service goals:** You can't just say, "Let's give great customer service." You have to define what it is, what it looks like and what you want the customer to experience. It has to be crystal clear. I just worked with a company that created a four-word mantra, as I like to call it. A short one sentence phrase that is easily understood and remembered; put the customer first. But, to just say it is nothing more than lip service. This company created an entire program around these words. Every employee is participating in training sessions and the effort will be ongoing, not for a few days or weeks, but hopefully for years to come.

2. **They put good people in the wrong jobs:** A customer service culture starts with the people. There are plenty of good people out there; however, some of them aren't suited for a truly customer-focused organization. It starts with hiring the right personalities to fit the culture. But, what about current employees? Make sure they buy into your customer service definition and are ready and willing to be a part of the initiative.

3. **They don't provide proper training:** Training is not something you do one time. It's not something you teach during orientation and never bring up again. It's an ongoing effort. The best companies have ongoing training to keep customer service front of mind. Employees must be knowledgeable, not just about how to deliver friendly and helpful service, but also to be prepared to answer customers' questions. *'Continuous customer service training is an investment with high leverage.'* Knowledge creates confidence and trust. If you want to destroy credibility, put untrained people on the front line. Employees may not have all the answers, but make sure they are properly trained to know who to ask or where to find the correct information.

4. **They treat customer service like a department:** For a truly customer-focused culture to work, everyone has to be aware of how they impact the customer's experience. One of my favorite sayings has always been that **customer service is not a department**. It's a philosophy to be embraced by every employee, from the CEO to the most recently hired.

5. **They treat employees one way and expect them to treat customers a different way:** The behavior of leadership and management toward employees is often incongruent with the customer service initiative. "***Take care of your employees, and they will take care of you***". The remedy is my Employee Golden Rule, which is to treat employees like you want the customer to be treated maybe even better. Employees will have an

example to follow as they interact with the customer, and, maybe even more importantly, they will feel valued and be motivated to deliver good service and help the company succeed.

6. **They are hard to find:** Customers have questions. Sometimes they have complaints. How easy is it for your customers to contact you? Make it easy by providing clear contact information including phone number, live chat, email address, social channel, etc. This is especially important if all or part of your business is conducted online. Customers shouldn't have to search through multiple pages on your website to find an address or phone number. "***Showing up, for example through live chat on your website, is half the work.***" If you want an example to follow, check out Zappos.com. Although it's an online only retail business, a phone number is posted on virtually every page of its website.

7. **They ignore customers on social media:** Smart companies see social media sites as a way to engage with customers and not just the ones who complain. Engaging with the customer is a great public relations strategy, and its effect is multiplied on social media where your customers' posts and your replies are out there for everyone to see. And while you should respond to compliments as well as complaints, a timely response is most essential when a customer posts about a problem or issue.

8. **They don't value the customer's time:** My father taught me long ago that being late is disrespectful. Whether you are late for an appointment or with a response to a customer, it gives the impression that you believe you are more important, or that your time is more valuable. "***Speed is one of the core principles of good service.***" Customers today want and expect self-service options. They find that self-service is often quicker and easier than a traditional call for support, so offering these options can be another way to show that you value their time.

9. **They don't offer self-service solutions:** Customers today want and expect self-service options. They find that self-service is often quicker and easier than a traditional call for support, so offering these options can be another way to show that you value their time. Self-service solutions can include a Frequently Asked Questions (FAQ) page on your website, forums where customers can discuss your products and help answer questions, or a YouTube channel with instructional how-to videos about assembling or using a product.

10. **They fail to express appreciation:** This is basic, but surprisingly, it happens more often than it should (which is never). I always notice when I make a purchase at a store and the cashier doesn't say thank you. I might even say "thank you" as I prepare to walk away, hoping that it will prompt the same in return, but sadly, the cashier often fails to take the hint. Showing appreciation by at least saying thank you is so easy to do. Customers want and deserve to feel appreciated. Say thank you! "***Show sincere appreciation.***" As you read this list of customer service mistakes, perhaps something struck a chord. Is your company guilty of a lapse in one or more of these customer service basics? If so, it's time to focus your

attention on the problem area with a little effort, you can turn customer service failure into customer service success.

UNSUCCESSFUL DELIVERIES CAN BE AN OUTCOME OF VARIOUS FACTORS: Some of them can be:

➢ **A Misperception by the Company:** It may so happen that what the customer has asked or expected is not grasped by the company. Because of this misperception, the service delivery is not as desired by the customer.

➢ **Lack of Accuracy:** The service provider may perceive the customer's expectations rightly but due to not setting an accuracy level or a standard of service, he may not satisfy the customer to the desired extent.

➢ **Lack of Training:** The employees entrusted with the task of dealing with the customer may lack the required know-how or may not be properly trained to ensure a desirable delivery to the customers.

➢ **Information from the Company:** Sometimes the information from the company is given in such a way by the representatives and the media that the customer is almost hypnotized. But when the latter approaches the company, he finds that in reality there is nothing like what he has heard.

➢ **A Misinterpretation by the Consumer:** If often happens that the customer is unable to perceive the true nature of a service provided by the company. Even if the latter is careful and decent in its efforts, the customer may misinterpret. Thus, if a salesman is highly cordial with a female customer, the latter may smell something fishy in it.

13.8 SUMMARY

A distribution channel is an organization of marketing institutions and their inter-relationships that promote the physical and title flow of goods and services from producers to consumers. It overcomes the major time, place and possession gaps that separate goods and services from those who would use them.

The functions performed by the members of the marketing channel comprises of gathering and sharing market related information, developing and spreading persuasive communications about the product, finding and communicating with prospective buyers, shaping and fitting the offer to the buyer's needs, negotiation with customer, transporting and storing goods, financing and risk taking. The first five functions help to complete transactions. The last three help to fulfill the completed transactions.

The options for service distribution are franchisees, agents, brokers and electronic channels. They have their own set of advantages and disadvantages. The marketers of services have to diligently pick them as per their utility in different combinations. There are several factors that govern the selection of distribution channel these factors include the likes of market factors such as type, service requirements and geographic distribution of customers, Product factors such as Quantum of order, perish ability & variations in service etc., Producer

factors such as whether the manufacturer has adequate resources to perform channel functions & Broad product line and Competitive factors including the competency and synergy between the intermediaries.

A channel may have many intermediaries with competing interests which may lead to serious conflicts. The Conflicts could be vertical (Direct and Indirect Sales and Over saturation), horizontal (Loss Leader and Turf War) of multiple channel conflicts nature. These conflicts ultimately erode the credibility as well as profits of the manufacturer therefore a marketer need to understand the intricacies of conflicts, its sources and ways of dealing with it whenever such issues arise. The measure to control the conflicts are setting up Subordinate or limited goals for channel partners, employee exchange, Trade associations, Co-optation, Diplomacy, Mediation & Arbitration and finally the way to Legal recourse.

There can be many reasons and excuses for poor distribution of services, a manager must work out those issues and set things right.

13.9 SELF-ASSESSMENT QUESTIONS

1. What are the distribution strategies for services? Explain it.

2. Explain the functions performed by the members of the marketing channel.

3. Define service intermediaries. What are the service channel options?

4. Discuss the challenges in distribution of services.

5. Describe the factors that affect distribution channel strategy.

6. Discuss the problems in distributing services through electronic channels.

7. What are the types of channel conflicts? Elaborate each.

8. What are distribution channel conflicts? Explain in details.

9. What are the reasons for an improper service delivery? Discuss it.

10. How to overcome the destructive channel conflict? Explain managing the channel conflicts.

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UNIT-14 ROLE OF INTERNET IN DISTRIBUTION OF E-SERVICES

UNIT FRAMEWORK

14.1 OBJECTIVES

After completing this unit you will be able to:

- to explain the e-Services
- to elaborate the role of internet in distribution of services
- to know the types of e-Services
- to examine the types of internet marketing
- to discuss the major e-service keywords.

14.2 INTRODUCTION

Throughout the world the services sector is gaining momentum and has become a major contributor to the GDP of a nation. The growth in the services has catapulted because of tremendous growth in the Information Technology and Internet. The significance of information dissemination in services is much more than the marketing of tangible product therefore with the sharp advent of internet and decreasing prices of usage of data has strongly favoured the spread of services marketing to remotest areas which was hitherto unimaginable. The

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linking of banks and financial institutions across nations and swift execution of financial transactions involving different currencies has also been a contributing factor for the fast paced growth of services.

Many services have added advantage that is there is no time lag in distribution of services whereas the physical products are required to be actually transmitted to the end user using intermediaries. E-services such as online courses, e-consultation, banking and investment solutions usually come under this category. Though there are a host of advantages associated with the use of the Internet such as ease of spreading publicity, one to one, yet automated customer engagement, broad coverage, concrete informatics around consumer preference etc., still there are certain challenges like that of security, information theft and piracy. Proper knowledge and use of internet by marketers may likely to further the cause of E-services.

14.3 E-SERVICES

E-services (electronic services) are services which use of information and communication technologies (ICTs). The three main components of e-services are- service provider, service receiver and the channels of service delivery (i.e., technology). For example, as concerned to public e-service, public agencies are the service provider and citizens as well as businesses are the service receiver. The channel of service delivery is the third requirement of e-service. Internet is the main channel of e-service delivery while other classic channels (e.g. telephone, call center, public kiosk, mobile phone, television) are also considered.

E-Service constitutes the online services available on the Internet, whereby a valid transaction of buying and selling (procurement) is possible, as opposed to the traditional websites, whereby only descriptive information are available, and no online transaction is made possible.

14.4 TYPES OF E-SERVICES

E-services can be divided into several broad categories that are defined by the types of individuals and/or organizations that provide and use these services. Three of these major categories are referred to as

(a)   business-to-consumer (B2C).

(b)   consumer-to-consumer (C2C), and

(c)   business-to-business (B2B).

In addition there are also e-services that can involve a government agency, which are referred to as either government-to-business (G2B) or government-to-consumer (G2C), within these broad categories. There are several different types of services that can be provided. We present five of these services within the e-service framework: (a) e-tailors, (b) customer support, (c) network providers, (d) information providers, and (e) application service providers. Some firms provide only one type of service. While others may be providing several, for example, an e-tailor will often also provide customer support.

14.5 ROLE OF INTERNET IN DISTRIBUTION OF SERVICES

The Internet has fundamentally changed nearly every aspect of our lives. From how we interact with friends, family, coworkers, and businesses, a technology that was in its infancy just 20 years ago is now considered indispensable to many people. Companies understand the value that the Internet offers to them, providing interactive opportunities to connect with current customers and attract new consumers. As the Internet evolves, businesses will continue to refine their online marketing efforts, reaching a greater number of potential buyers than before. Web marketing refers to a broad category of advertising that takes many different forms, but generally involves any marketing activity conducted online.

Marketers have shifted their efforts online because it tends to be significantly less expensive. Many online advertising spaces are free to use. Companies can upload videos to YouTube or start a blog for no cost at all. Other outlets like official websites or paid search marketing cost a fraction of what a major television advertising campaign would. The web also presents exciting new opportunities for companies to profile their customers. The interactive space of the Internet simplifies a company's ability to track, store, and analyze data about a customer's demographics, personal preferences, and online behavior. This data allows the advertiser to provide a more personalized and relevant ad experience for the customer.

14.6 TYPES OF INTERNET MARKETING

1. **Display Advertising** – The use of banner ads and other graphical advertisements to market products online.

2. **Search Engine Marketing** – Using search engines to help connect users with the products and services they are most interested in. Companies can pay to receive preferential ranking in a list of search results.

3. **Search Engine Optimization** – A free and organic way for companies to improve their visibility on search engines.

4. **Social Media Marketing** – Using sites like Facebook and Twitter to connect with customers.

5. **Email Marketing** – Communicating with customers through the use of carefully designed emails.

6. **Referral Marketing** – Using internet channels to encourage consumers to recommend products to their friends and families.

7. **Affiliate Marketing** – Working with other businesses to make it easier for consumers to shop for products online.

8. **Inbound Marketing** – Boosting the value of a company's web presence by adding unique content like blogs, games, and tutorial videos.

9. **Video Marketing** – Using web videos for promotional purposes.

14.7 MAJOR E-SERVICE KEYWORDS

A considerable amount of research efforts already exists on the subject matter exploring different aspects of e-service and e-service delivery; one worth noting effort is Rowley's study (2006) who did a review study on the e-service literature. The key finding of his study is that there is need to explore dimensions of e-service delivery not focusing only on service quality "In order to understand e-service experiences it is necessary to go beyond studies of e-service quality dimensions and to also take into account the inherent characteristics of e-service delivery and the factors that differentiate one service experience from another."

Some of the major keywords of e-service as found in the e-government research are as follows:

1. **Acceptance:** User acceptance of technology is defined according to Morris (1996, referred by Wu 2005, p.1) as "the demonstrable willingness within a user group to employ information technology for the tasks it is designed to support". This definition can be brought into the context of e-service where acceptance can be defined as the users' willingness to use e-service or the willingness to decide when and how to use the e-service.

2. **Accessibility:** Users' ability to access the e-service is an important theme in the previous literature. For example, Huang (2003) finds that most of the websites in general fail to serve users with disabilities. Recommendation to improve accessibility is evident in previous literature including Jaeger (2006) who suggests the following to improve e-services' accessibility like: design for accessibility from the outset of website development, Involve users with disabilities in the testing of the site. Focus on the benefits of an accessible Web site to all users.

3. **Administrative literacy:** According to Grönlund et al. (2007), for a simple e-service, the needs for knowledge and skills, content and procedures are considerably less. However, in complicated services there are needed to change some prevailed skills, such as replacing verbal skills with skill in searching for information online.

4. **Benchmarking:** This theme is concerned with establishing standards for measuring e-services or the best practices within the field. This theme also includes the international benchmarking of e-government services (UN reports, EU reports); much critic has been targeting these reports being incomprehensible and useless. According to Bannister (2007) "benchmarks are not a reliable tool for measuring real e-government progress. Furthermore, if they are poorly designed, they risk distorting government policies as countries may chase the benchmark rather than looking at real local and national needs"

5. **Digital divide:** Digital divide is considered one of the main barriers to implementing e-services; some people do not have means to access the e-services and some others do not know how to use the technology (or the e-service). According to Helbig et al. (2009), "we suggest E-Government and the digital divide should be seen as complementary social phenomena

(i.e., demand and supply). Moreover, a serious e-government digital divide is that services mostly used by social elites."

6. **E-readiness:** Most of the reports and the established criteria focus on assessing the services in terms of infrastructure and public policies ignoring the citizen participation or e-readiness. According to by Shalini (2009), "the results of the research project reveal that a high index may be only indicating that a country is e-ready in terms of ICT infrastructure and info-structure, institutions, policies, and political commitment, but it is a very poor measure of the e-readiness of citizens. To summarize the findings, it can be said that Mauritius is ready but the Mauritians are not"

    ``E-readiness, as the Economist Intelligence Unit defines, is the measure of a country's ability to leverage digital channels for communication, commerce and government in order to further economic and social development. Implied in this measure is the extent to which the usage of communications devices and Internet services creates efficiencies for business and citizens, and the extent to which this usage is leveraged in the development of information and communications technology (ICT) industries. In general terms, the definition of e-readiness is relative, for instance depending on a country in question's priorities and perspective.

7. **Efficiency:** As opposed to effectiveness, efficiency is focused on the internal competence within the government departments when delivering e-services. There is a complaint that researchers focus more on effectiveness "There is an emerging trend seemingly moving away from the efficiency target and focusing on users and governance outcome. While the latter is worthwhile, efficiency must still remain a key priority for e-Government given the budget constraints compounded in the future by the costs of an ageing population. Moreover, efficiency gains are those that can be most likely proven empirically through robust methodologies"

8. **Security:** Security is the most important challenge that faces the implementation of e-services because without a guarantee of privacy and security citizens will not be willing to take up e-government services. These security concerns, such as hacker attacks and the theft of credit card information, make governments hesitant to provide public online services. According to the GAO report of 2002 "security concerns present one of the toughest challenges to extending the reach of e-government. The rash of hacker attacks, Web page defacing, and credit card information being posted on electronic bulletin boards can make many federal agency officials—as well as the general public—reluctant to conduct sensitive government transactions involving personal or financial data over the Internet." By and Large, Security is one of the major challenges that faces the implementation and development of electronic services. people want to be assured that they are safe when they are conducting online services and that their information will remain secure and confidential

9. **Stakeholders:** Axelsson et al. (2009) argue that the stakeholder concept- which was originally used in private firms-, can be used in public settings and in the context of e-government. According to them, several scholars

have discussed the use of the stakeholder theory in public settings. The stakeholder theory suggests that need to focus on all the involved stakeholders when designing the e-service; not only on the government and citizens.

10. **Usability:** Compared to Accessibility, There is sufficient literature that addresses the issue of usability; researchers have developed different models and methods to measure the usability and effectiveness of e-Government websites. However, But still there is call to improve these measures and make it more compressive.

"The word usability has cropped up a few times already in this unit. In the context of biometric identification, usability referred to the smoothness of enrollment and other tasks associated with setting up an identification system. A system that produced few false matches during enrolment of applicants was described as usable. Another meaning of usability is related to the ease of use of an interface. Although this meaning of the term is often used in the context of computer interfaces, there is no reason to confine it to computers."

14.8 SUMMARY

E-services are basically those services which are dependent on the use of ITC for their distribution. There are three components of e-services; these are service provider, service receiver and the channels of service delivery (i.e., technology). There are basically three types of services namely the business-to-consumer (B2C), consumer-to-consumer (C2C), and the business-to-business (B2B) services depending upon the marketer and the consumer types.

The marketing over internet can take many forms such as: Display Advertising, Search Engine Marketing, Search Engine Optimization to improve visibility on search engines, Social Media Marketing which involves using sites like Facebook and Twitter to connect with customers, Email Marketing through the use of carefully designed emails, Referral Marketing to encourage consumers to recommend products to their friends and families, Affiliate Marketing associating with other businesses to make it easier for consumers to shop for products online, Inbound Marketing which allows boosting the value of a company's web presence by adding unique content like blogs, games, and tutorial videos and finally the Video Marketing.

14.9 SELF-ASSESSMENT QUESTIONS

1. What do you understand by e-Services? Explain it with suitable examples.

2. Describe the types of e-services.

3. What is the role of internet in distribution of e-services? Describe it.

4. Describe the types of internet marketing.

5. What are the major e-service keywords? Explain it.

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UNIT-15 MARKETING APPLICATIONS IN SERVICE INDUSTRIES

UNIT FRAMEWORK

15.1 OBJECTIVES

After completing this unit you will be able to:

➢ to explain the marketing applications in service industries

➢ to elaborate hospitality services

➢ to know the airlines and tourism services

➢ to examine the health care and wellness services

➢ to discuss the banking and insurance services.

15.2 INTRODUCTION

Marketing helps an organisation to achieve its organizational goals by satisfying the needs of customers more effectively and in a best profitable way. As marketing operates within a dynamic global environment, it is facing new challenges. Services sector is even more intricate as it is relatively new. The service marketing is a growing discipline as the service sector continues to grow both in size and importance in the world economies. Service marketing is not a

peripheral activity but a carefully planned programme aimed at achieving desired results. It needs a lot of innovations to assess the changes in consumer needs and to design appropriate marketing strategies. Research in this area can contribute a lot in bringing new ideas, information and techniques in service marketing to provide real value to service marketers and customers.

Many services can't be said fully intangible, rather it should be viewed as a combination of both at varying degrees therefore; many features of the services differ across different segments. Understandably, marketing effort across different service industries differ considerably even though the basic tenets of marketing remain the same. A clear understanding of the differences and the application of marketing application required is imperative to successful marketing programme.

15.3 MARKETING APPLICATIONS IN SERVICE INDUSTRIES

The application of the basic principles of marketing is the same irrespective of whether one is marketing tangible or intangible goods for commercial (profit) or non-commercial (social) organizations. The marketing of services which is something called marketing of professional services cuts across the hospitality and tourism industry etc. According to Chigozie (2007), marketing must not be seen narrowly as the task of finding clever ways to set a hostel's products or services. According to him many people confuse marketing with some of its sub functions such as advertising and selling. Marketing is not the art of selling what you make but knowing what to make, it is the art of identifying and understanding customer needs and creating solution that deliver satisfaction to the customers, profit to hostel, fast food, restaurant operators and tourism business etc.

Various governments seem o recognizes the potentials of hospitality and tourism industry to boost the economy and corporate image of the country in a variety of ways. Based on this, marketing in hospitality and tourism world critically look at the dynamic of the environment encompasses in business, physical (geographical) and governmental policies environment, (Adeyemo, 2005). The philosophy of marketing in the hospitality and tourism industry is customer oriented. Their services are defined from the customers' point of view. Hospitality means to be hospitable; AkwaIbom State people in Nigeria by nature are hospitable and accommodating. This quality should be exhibited in our hospitality and tourism industry, (Nwidum, 2007).

TYPE OF SERVICE OPERATIONS-PARTIAL LIST

Transportation services	Entertainment services	Financial and Insurance services
• Railway	• Motion pictures	• Banking
• Airlines	• Video parlours	• Leasing
• Local and Inter-state passenger	• Game parlours	• Security and

transportation • Road transportation • Helicopter service • Private aircraft services • Water transportation	• Theme parks and Party • Event management • Discos and • Bowl parks • Clubs	brokerage • Investment banking • Retail banking • Insurance • Credit reporting
Government provided services • Infrastructure & Defense • Police and Transport • Broadcasting • Education & Medical **Public utilities services** • Water supply services • Electric supply • Gas supply	**Real estate services** • Renting • Investment consultants • Property consultants • Building and • Real estate management **Hospitality services** • Hotels & restaurants • Catering • Home delivery	**Marketing related services** • Marketing consultancy • Advertising • Tele-marketing • Sales promotion • New product development • New product testing • Market research **Trading services** • Wholesaling and Retailing
Engineering services • Equipment inspection • Designing & ERP • Construction design • Architectural • Facility planning • Technical research	**Communication services** • Telephone • Postal and Courier • Radio and TV broadcasting • Telecommunication • Tele-conferencing • Satellite	**Business and professional services** • Records management • Management consultancy • Legal & Accounting • Meeting facilities • Office management
Others services • Janitorial • Security • Public relations • Land escaping/Lawn care • Printing • Data processing • Speech writing • Professional speaking	• Educational • Training • Travel related • Courier • Health and hospital • Equipment rental • Interior designing • Laundry and cleaning	• Computer programming • Personal grooming • Fax • Old age homes • Ware housing • Window dressing • Repair and maintenance • Home-help

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15.4 HOSPITALITY SERVICES

In any business, a solid marketing strategy is critical to building a brand, attracting new customers and maintaining loyalty. The hospitality industry is no different. Because customer loyalty is key, marketing managers and executives devote a lot of time and resources to building brand awareness and creating ongoing, interconnected campaigns. These marketing efforts usually include both print and digital collateral that target former guests while also attracting new clientele. However, this particular industry has a unique set of challenges that must be overcome. Understanding the importance of marketing in the hospitality industry can help you get ahead and stand out in the competitive job market.

Hospitality sales are different from consumer goods sales because marketers must sell tangible as well as intangible products. In many cases this means that they are marketing services rather than goods, and success hinges on creating the right *feeling* in the consumer. For example, a resort will want to cultivate a relaxing, fun atmosphere that is recognizable to customers and inspires those same feelings in the consumer. Because the hospitality industry is mostly made up of tourism and other experiential services, a consistent brand identity is also very important. Marketers want to ensure that brand recognition exists so that customers will use their services again and again. Repeat customers bring in a sizable portion of revenue, so marketing strategy must be split between maintaining relationships with past customers while seeking out new ones.

15.4.1 HOTELS

Accommodation includes hotels, ranging from the biggest international chains recognizable worldwide such as Hilton and Holiday Inn to small independent establishments. In order to gain recognition in an increasingly competitive marketplace, many smaller independent hotels have grouped together, adopting a consortium approach. Under a central brand name, they can offer central reservations services, for example, and present a recognizable identity to consumers, which enable them to compete against the larger, more established chains.

Other types of accommodation are also well established in tourist markets, notably self-catering apartments and club type complexes. Centre Parks are today's answer to the Bullins type holiday camps of the 50s and 60s, while Mark Warner Holidays are also successful in their inclusive club formula.

15.4.2 TRANSPORT MARKETING

The environment in which the corporations are functioning is unique and it is entirely different from that of commercial and industrial enterprises. Some of the important elements of marketing environment for transport services are presented below followed by a brief analysis of each of the elements.

One of the important and unique features of demand for transport service is that it is a derived demand. Because, the demand for transport service arises due to the demand for other goods and services arise. For instance, if Mr. X wants to

purchase a television set, he has to travel from his place to the place where the television set, he has to travel from his place to the place where the television set is available. Thus, the demand for goods and services creates demand for transport service, as one has to travel from one place to another to attend to some work or to affect some purchases. Hence, the demand for transport services is derived out of the demand for others.

Before anatomizing other dimensions of marketing management, the conceptual exposition of transport marketing is presented. The term transport marketing is identification of the most profitable markets now and in future, assessing the present and future needs of the users, setting business development goals and making plans to meet them and further managing the services and promoting them to achieve the plans-all in the context of the changing business environmental conditions to cater to the changing socio-economic needs. The aforesaid facts make it clear that the term transport marketing is the application of marketing principles by the transport organisations in which the marketing professionals make sincere efforts to market the services in such a way that generation of profit, satisfaction to users and protection of social interests are made easier.

Airlines, Cruise and Ferry Lines, Passenger Railways, Coach and Bus Travel, Car Hire: The range of airline services has increased considerable, not only in terms of frequency of flights and number of destinations, but also in terms of different services, and differing levels of service to meet different passenger needs. This shows the important role marketing plays as competition and demand intensifies. Passenger rail services have also changed, and their role in tourism is wide as with, for example, Euro rail tickets allowing extensive international travel at a basic (service) standard for students and budget tourists, to the luxury of the Venice-Simplon Orient Express-where the train voyage is the holiday.

Cruise lines are operating different services tailored to consumers" budgets, and other shipping lines involved in the tourist industry, especially the car ferry operators, are broadening and upgrading their range of services and facilities to meet consumer expectations, and to remain competitive. Coach and bus companies have acted in a similar fashion and these, together with car rental companies, are also included in this sector.

15.4.3   TOUR OPERATORS

Package Tours, Specialty Tours

Tour operators are the firms which specialize in providing the whole holiday package, incorporating travel and accommodation needs for the consumer. They range from highly specialized operations such as Abercrombie and Kent who take small groups on safari or expedition-type holidays, to large operators offering services at all different levels to cater for budget, family, or singles holidays to near or far away destinations.

Thomas Cook is one of the best known of such operators; they also offer travel agency and financial services to their consumers. An independent local coach firm may also be a tour operator, and indeed, many transportation companies also offer holiday packages.

15.4.4 TOURISM DESTINATION OPERATORS

Theme Parks, Heritage Centres

This is a new category in many senses, as it is an area of the tourism industry which has seen massive growth in the development of theme parks and other types of artificial tourist destinations in recent years. However, Disneyland and Disneyworld in America were the forerunners of this development in tourism marketing, and they have been well established for decades. It is due to the recent growth, and the continuing trends, which make it an area which should be considered separately as a tourism industry. The new EuroDisney theme park in France is an example of a tourism destination operation. On a smaller scale, heritage parks which are being developed from Britain's industrial wasteland such as Wigan Pier, which attracted over half a million tourists in 1991 and similar attractions, now represent a significant amount of tourism activity.

All the above sectors of the tourism industry, while quite distinct in them, have many aspects in common. There are certain features of tourism marketing which differ from other industries. The impact of environmental forces, for example, can provide different pressures opportunities for tourism than for other service sector industries

15.4.5 STRATEGIES FOR SUCCESS

Companies in the hospitality industry use various methods to develop and maintain an effective marketing plan. The following are some of the general strategies that marketers use for brand success.

1. **Research:** Customers choose hotels and other hospitality services for a variety of reasons. From location to facilities and perks, companies have to be sure that they're providing what buyers are looking for. The role of marketers is to identify what factors make customers choose a particular hospitality service, and this requires extensive research. By speaking to current and former guests, monitoring customer reviews on websites, reviewing industry data and more, marketing professionals learn what makes a hospitality service stand out, as well as how it can be improved.

2. **Awareness:** If potential customers don't know about a service, they can't purchase it. That's where brand awareness comes in. Marketers make sure information on hotels, resorts and restaurants is easy to find and up-to-date. They can do this by buying ad space on relevant travel sites, creating an engaging website and collaborating with other, noncompeting hospitality services in the same market.

3. **Promotion:** Another smart strategy for attracting customers is to run promotions during certain times of the year, usually when business is slower. Introducing incentives and offering incentives are just some of the ways that marketing professionals achieve this. Have you purchased a Group on for a spa weekend? That's promotion at work.

4. **Relationships:** To ensure high levels of repeat business, good customer relationships are vital. Not only do repeat customers usually promote a

service through word-of mouth and social media, but they also create a stable revenue base. One way to build relationships is through customer loyalty programs, which reward customers who regularly use a particular hospitality service.

15.5 AIRLINES SERVICES

Airline marketing

The air transport is modern and efficient component of the transportation system. The expansion of air transport through the world has been post-Second World War phenomenon. India did not lag behind in developing air transport. Its progress after the commencement of the First Five-Year Plan has been accelerated keeping in view the growing economic activities in the country.

In the field of international passenger originating or terminating in a particular destination air transport plays a very important role so far as passenger traffic is concerned. In international passenger traffic, air transport is fast developing and capturing the traffic handled by sea transport. Air transport, which handled almost an equal number of passengers as sea transport, now accounts for nearly four times the traffic by sea.

Airlines play an important part in the tourism world. The measures taken to increase capacity and speed means that their part will continue to increase in the future. For some years the airline companies have sought to increase their traffic by using modern aircraft and by a pricing policy taking into account the purpose of travel and elasticity of demand. The policy is determined by increased capacity coming from new aircrafts, on one hand and the stiff competition chartered air transport companies on the other hand.

Services are by their nature intangible. They cannot be inspected or sampled in their purchase; therefore an element of risk is involved on the part of the purchaser. The traveling cannot be seen but can only be felt. This makes marketing much more difficult for service products have many drawbacks, the fact that a travel agent does not have to pour products before selling them to clients, reduces the agent's commitment to the sale and hire particular brands. Tourism marketers must overcome the drawbacks posed by the intangibles and there are a number of ways in which this has been achieved in practice. During and before oil prices sent airfares rocketing, seats were made available to the public at very low fares to enable prospective purchases to „sample" the experience of flying. More recently, British Airways experimented with low prices flights to help prospective passengers overcome their fear of flying.

Secondly, services are heterogeneous and airline services are not an exception to this. The official, checking the baggage is unlikely to treat passengers with the same consideration all the time; similarly it is difficult to obtain consistent service from the air hostess on all the flights. While good quality control procedures can help avoid variations in performance, they cannot overcome the human problems inherent in the performance of airline services.

The airline product is a highly perishable one. An airline seat not sold today is lost forever. This factor is of great importance for marketing, particularly

while pricing. The „stand-by" fares offered by airlines reflect their need to off-load products before their sale potential is lost. Substantial reductions are also offered during off-season or periods of low demand.

Further Airline services are highly personalized, the production being the outcome of the seller. In an airline service whatever be the quality of the food in the flight, however comfortable seating is, however attractive the doctor, services is an integral part of the product that it would be unlikely that we should be prepared to purchase it from a poor representative. The airline steward/ less who caters to our needs enroute is an essential element of the product we are purchasing and their social skills in dealing with us are very important. Hence, there are several important considerations to take into account while marketing airlines. It is a fascinating product to create and sell.

There are three important domestic airlines in India (1) Indian Airlines the biggest one but in the public sector, (2) Jet Airways and (3) Sahara Airlines, both in the private sector. The Mumbai – Delhi Sector is the one which provides the maximum volume of business and is being handled by all the three. Sahara Airlines started the fare war in July 1999 by reducing the airway fare to Rs. 3,555 and added a bonus of gift of Rs. 500 for every passenger flying Sahara on this route. Jet Airways followed suit and reduced the fare to Rs. 4,111. Indian Airlines did not remain behind and reduced the fare to Rs. 3,800. Not only the fares were slashed, many value added benefits were provided to the passengers. Jet Airways was hit the hardest and approached the Indian Airlines but the latter did not seem to be in a mood to respond. A survey by the Marketing and Development Research Analysis (MRDA) concluded 65.4 per cent of the airline passengers choose their airline on the basis of price‖. The Economic Times feels that fare war may spread to other sectors as well. But by making flying affordable for a much larger number of Indians it may lead to an increase in the growth of civil aviation in India.

15.6 TOURISM SERVICES

A clear perception of tourism marketing requires a brief analysis of marketing. We are well aware of the fact that there have been fundamental changes in the traditional concept of marketing, which has been influenced by the multidimensional changes in the business environment. A transformation in the attitudes, lifestyles, and expectations is the result of a number of developments. Professionalism paves the ways for excellence, which opens doors for quality generation vis-à-vis competition. Almost all the organisations producing goods or generating services have no option but to assign an overriding priority to quality upgradation that requires innovations. This necessitates a change in the concept of marketing which determines its functional boundaries. We find satisfaction of users the focal point around which all the functional areas of marketing cluster. While clarifying the perception of tourism marketing, it is essential that we assign due weightage to the three important considerations, the first generation of profits by the tourist organisations, second world class services to the tourists which help in satisfying them and the third positive contributions of tourist organisations to the process of social transformation and ecological balance. In view of the above, the following points emerge regarding tourism marketing:

- Tourism marketing is a process of creating a product or providing a service.

- Tourism marketing comprises fact-finding, data gathering, analyzing (marketing research), communication to inform and promote (Promotion), ensuring and facilitating sales, selection of marketing, planning (distribution), coordination, control and evaluation (marketing, planning and auditing) and developing professionally sound personnel (people).

- Tourism marketing is an integral effort to satisfy tourists and more so, it is a device to transform the potential tourists into the actual tourists.

- Tourism marketing is the safest way to generate demand, expand market and increase the market share.

- Tourism marketing is a managerial process to promote business.

Tourism is a very complex industry due to its multiple activities, which satisfies the needs of the tourist (customer). Tourism embraces transportation, accommodation, food catering, tourist attraction, as well as organizers like tour operators and travel agents. The various sub-sectors of tourism namely-lodging, transport, are themselves complete industry. Moreover a tour consists of different requirements of different people and it is not a homogenous product. The main problem lies in maintaining standards for these components. Considering the plethora of activities in tourism, it requires professionalism in major decisions and its success is governed by excellence.

While boosting tourism globally, the growing influence of the internet is filling up some coffers and drying up some, putting the travel industry intermediaries on notice, much to the delight of the consumer. Margins are shrinking and business drifting away for the middleman, be it a tourist operator or a travel agent. The real paradox, however, is that what is being taken away by the Net is compensated by new business generated through the Net. For most intermediaries in the sector, the loss on the outbound sector is made up by the gain on the inbound traffic. By directly contacting tour operator here, foreign tourists get cheaper accommodation package. Booking a hotel accommodation through a tour operator in their country would cost them 25 per cent more. Having eliminated one intermediary in the chain, Indian tour operators are also benefiting since they pin a markup on direct sales.

The bonanza, however, may not last long since hotels are also directly marketing their products on the Net. Even the tourism department is getting into action, touch screen terminals are being set up at airports for tourists to make hotel bookings directly. "Those who have not done advance reservations can use this facility and rates would be transparent". Efforts are on to include all major hotels into the new facility to give tourists a wider choice.

While the optimism about e-commerce revolutionizing tourism is unmistakable, there are also voices of concern. "Steps should be taken to check frauds and false bookings. Another area of concern is undercutting. Most operators only give details of their package on their websites and the rates are not mentioned since it might encourage rivals to undercut. The drawbacks and apprehensions may be there but the "Notification" of tourism is here to stay.

15.7 HEALTH CARE AND WELLNESS SERVICES

Until recently, the healthcare industry was at the crossroads, still unsure which way to go. Today, it is in for exciting times. Low costs, combined with excellent facilities, have provided the perfect formula for India to become a major player in the $2.8 trillion worldwide healthcare industry. Today the cost of healthcare in India is only one-tenth the cost in the US in cases of major surgeries. With costs of providing healthcare low, and with global standards available, the world cannot compete with us. The cost of a heart surgery at Apollo is $2,500 as compared to $30,000 in the US. Bone marrow transplants cost $50,000 in India as against $400,000 in US.

India's attraction as a low cost, high-quality centre for healthcare may be new but the signs are visible. In 1998-99, Apollo Hospitals conducted heart surgeries on 91 patients from Tanzania. In Chennai, Apollo treats around 30 Sri Lankans a day. Daily 40 patients are from Muscat registered in Apollo hospitals in Delhi, Chennai and Hyderabad for treatment. "Healthcare not only brings in direct purchase of healthcare, but it also encourages a lot of expenditure, on travel, lodging and boarding. Which, translated, means foreign exchange".

And India has enough embassies and tourism development corporations to spread the message.

Outdoor sport:	In door sport:
• Golf	• Snooker
• Water sports: jet-ski, windsurfing, boating	• Gymnasia and health clubs
• Tennis	• Ice and roller-skating
• Adventure sports: paintball battle games, hot air ballooning, skydiving	• Ten – pin bowling

HOSPITAL SERVICES

Marketing has grown in importance for hospitals, looking to strengthen their position in an increasingly competitive healthcare market place. A world-class hospital is a multi-disciplinary super specialty medical centre of international standards. Most hospitals today are well equipped with the most advanced diagnostic and treatment facilities. They try for total health care-preventive and curative. Most hospitals in India have grown to a truly world class stature over the years. Some hospitals in India have grown to a truly world class stature over the years. Some hospitals have even obtained ISO 9002 certification. Ex., Mallya hospital, Bangalore. ISO 9002 quality assurance is a structured and user friendly set of systems, which allows the staff at all levels of the hospital to follow simple procedures, which make the most complex tasks easy and efficient. It frees the senior management of everyday stress in observing and monitoring tasks, which have to be completed on a daily basis.

Virtual Hospital Strategy

Hospital will soon go hi-tech, not so much in terms of sophisticated medical equipment, but in that a patient's kith and kin can virtually visit him/her from any part of the world and the patient too can communicate with them and relieve their undue anxiety. Bangalore has emerged as a pioneer in the design of an interactive website used in making virtual visits to hospitals, thus introducing a human element hitherto unthought-of. This breakthrough in the usage of information technology for patients was achieved by the Bangalore-based Think Ahead Incorporated, designing the website for a hospital here.

The primary advantage of this technology is the mitigation of undue anxiety of relatives particularly sons and daughters, children of patients who are settled abroad who cannot at beside of patients undergoing treatment for a heart ailment or a major surgery. The Virtual Family Visit" allows relatives to see real-time images of patients through audio video files which can be downloaded on their computer by entering the hospital website through the internet. These files of the patient are shot by the hospital using a Webcam (web camera) to show the convalescing patient and his message for his family members. The files are then unloaded in the hospital website. The family members can also communicate with the patient by way of sending on-line get well cards to patients. Besides, they can also get reports of the patient's condition from the doctor-in-charge, if the relative so desires. Wockhardt Hospital, where the Virtual family visit is in use, the relatives are physically able to see their near and dear ones recuperating from the treatment which avoid emotional trauma. This facility in hospital is particularly useful, when a relative, is unable to rush to the hospital to be physically present due to various reasons. Besides, the patient himself in is on the road to faster recovery when he communicates with his loved ones.

The use of web technology for virtual hospital visit here is said to be the first of its kind in the world. The claim may be true considering that family bonds in the country are very strong and even extends to close relatives. It may also be one of the reasons why such a facility had not been thought of in other parts of the world. Besides, scaled-down joint families are still prevalent, where this technology would come in handy. The success of this facility is revealed by the fact that there were as many as 8,000 hits within two months after its introduction sometime in May 2000.

15.8 BANKING SERVICES

BANK MARKETING

The banking industry is undergoing a revolution caused by deregulation. The causes for bank marketing can be seen as:

➢ rising customer needs and expectations due to improvements in general standard of living

➢ entry of foreign and private sector banks in India

➢ economic liberalization of Indian economy.

- ➢ phenomenal growth of competition due to economic liberalization.

- ➢ rise in the Indian middle class with considerable resources.

- ➢ government intervention in protecting the interest of consumers.

Thus the significance of bank marketing in Indian banking system is undeniable if they have to survive in the competitive environment. Bank marketing is not just advertising and promotion campaign but a managerial process by which services are matched with markets. This indicates evolving a suitable marketing strategy, which suits the needs of the customer. The major step in this direction is to blend the marketing variables-product, price, place, promotion, people, process and physical evidence, to satisfy the requirements of the customer.

ICICI Bank

The way ICICI Bank has promoted itself to become a leader in consumer perception has few parallels in the Indian service industry, especially when you consider the fact that it was earlier a staid development bank in the unglamorous business of project financing, and significantly owned by the government. At least in the public perception, it was a typical government bank, until it literally changed its colours to an attractive orange-red. Along with a spanking new logo, and aggressive marketing which included print, television, and personal selling through mailers and telemarketing, the ICICI Bank almost blanketed the landscape and the consumer's mind space in the years 2000-02, to emerge as a leading player in the retail banking industry.

From an NBFC to a Bank: Kotak Mahindra's Strategic Shift

Kotak Mahindra, which has started as an NBFC (non-banking financial services company) and has now become a bank. A major paradigm shift is taking place in the way corporate finance is structured. Traditionally, banks in India approached corporate and said "here is our bag of money". I don't think that is sustainable any longer. You have to go to the supply chain and look for gaps.

If you take the automobile sector, for instance, we are end-to-end providers. We have done car financing at one end of the retail chain. Now we are going to the other end, financing the ancillary units and suppliers. We do about Rs. 2,000 crore of cars financing a year. At any point of time, we have about Rs 300 crore of dealer finance. We do about Rs. 1,000 crore of commercial vehicle financing. We are targeting another Rs. 500 crore at the auto ancillary unit level. The total churn or the transaction volumes in the auto sector would be in excess of Rs. 5,000 crore a year. We are number three in auto financing, behind ICICI and HDFC Bank. As a vertical, it is a large part of our balance sheet.

If you are in end-to-end financing, we can compensate for the reductions, if any, in fee income. But the auto sector is growing at 30 per cent. We are trying to replicate the auto financing model in other sectors-in FMCG, pharmaceuticals, tractors, etc. Don't look at the profits of Kotak Primus in the normal way. That is because there is a very large royalty that Kotak Primus pays the bank, under our agreement with Ford. If you look at Kotak Primus operating profits (before the

royalty payments), it is quite good. Spreads have been under pressure. But even today, I can get a customer for car finance at 15 per cent and 7 per cent. It depends on the risk profile that you want to take on.

This is true to some extent. As you go deeper, you get higher returns, but you also run higher risks. We cover the top 60 to 70 cities now. Primarily, we will stay there. But as a bank, we do have the obligation to go to rural areas and we will do that. We see the conversion as conferring a longer term advantage. We did not have access to call money earlier. No doubt there is a branch cost, but that is met not only by deposits but also by investment products. We see this as a stronger model.

If you have Rs 100, you will put Rs 80 in various products but leave around Rs 20 in the SB account. We need to capture that and make it grow bigger. There is a fundamental change happening, globally. Most banks have been focusing on the stock of money. Now it is moving to the flow. Money is becoming more mobile. If you look at the nationalized banks, it is all focused on the stock. The trick to get stable money for us is to be in the middle of the flow. As we do have more of investment products, and keep on the churn, some part of the flow will keep on getting left behind and the residue will gradually grow. Other banks, which are focused on the stock, may not be able to hold on to it.

15.9 INSURANCE SERVICES

The term insurance marketing refers to the marketing of insurance services with the motto of customer-orientation and profit-generation. A fair blending of profit-generation and customer-satisfaction makes the ways for development and expansion. The insurance marketing focuses on the formulation of an ideal mix for the insurance business so that the insurance organisations survive and thrive in a right perspective. The quality of services can be improved by formulating a fair mix of the core and peripheral services. The persuasion process can be speeded up with the support of creative promotional measures. The premium and bonus decisions can be made motivational, the gap between the services-promised and services-offered can be bridged over, the quality and value based personnel can make possible performance-orientation and these developments can make the insurance organisations stronger enough to face the challenges and threats in the markets. It is meant managerial proficiency, which makes an assault on unethical and unfair practices by regulating profiteering. The organisations thus are found successful in increasing the market share, maximizing the profitability and keeping on the process of development. In the Indian perspective where rural-orientation needs a prime attention, the insurance marketing may prove to be a device for combating regional imbalance by maintaining the sectoral balance. As an investment institution, the rural development oriented projects make ways for the transformation of rural society.

The selection of risks (product planning), Policy writing (customer Service) rating or actuarial (pricing) and agency management (distribution)-all marketing activities make up an integrated marketing strategy. We can't neglect that during the yesterday decades, there have been considerable developments in the perception of customer servicing firms like banking and insurance companies.

Particularly in the developing countries like ours, the organizational objectives advocate spreading of insurance services much more widely and in particular to the rural areas and especially to the economically backward classes with a view to reaching all insurable persons. This naturally necessitates an integral marketing strategy. In other words, market-orientation in place of sales orientation is need of the hour. Hence the marketing concept in the insurance business focuses on the formulation of marketing mix or control over the whole group of marketing activities that make up an integrated marketing strategy.

INSURANCE MARKETING IN INDIA

The Insurance sector plays a vital role in the economic development of our nation. It acts as a mobilizer of savings, financial intermediary, and promoter of investment activities, stabilizer of financial markets and a risk manager. India is still an under-insured country in the world. It is at the 18th position among life insurance markets and 28th in non-life Insurance markets in the world. This indicates that there is a huge potential, yet to be explored. The business of life insurance in India in its existing form started in India in the year 1818 with the establishment of the Oriental Life Insurance Company in Kolkata.

Insurance is a unique service industry. They key industry drivers are related to lifestyle issues in terms of perceiving insurance as a saving instrument rather than for risk cover, need based selling, quality of service and customer awareness. In the present competitive scenario, a key differentiator is the professional customer service in terms of quality of advice on product choice along with policy servicing. Servicing focus is on enhancing the customer's experience and maximizing his convenience. This calls the effective CRM system, which eventually creates sustainable competitive advantage and enables to build long lasting relationships.

15.10 SUMMARY

Give that the marketing of services is a relatively new knowledge area in overall domain of marketing, the marketing of services have much variation among different services sectors, and this is due to the variation seen in services attributes across different segments. The involvement and perception of customers, inventory of unfinished utilities as well as requirements of marketing program vary across different service types. Marketers must understand the key industry drivers and plan their marketing effort accordingly.

There are some of the general strategies that marketers bank upon for brand success. Firstly, the marketers have to conduct consistent market and consumer research to bring about the improvement in the marketing effort. Secondly, the marketers have to spread brand awareness to ensure that the information on their services is easy to find and up-to-date. Thirdly, marketers have to run promotions during certain times of the year, usually when business is slower. Introducing incentives and offering incentives are just some of the ways that marketing professionals achieve this and finally the managers have to nurture relationships with customers to ensure high levels of repeat business, relationships help promote a service through word-of mouth and social media and create a stable revenue base.

15.11 SELF-ASSESSMENT QUESTIONS

1. What are the marketing applications in service industries? Explain it.

2. How many types of service operations in service marketing?

3. What do you understand by hospitality services? Discuss it in light of hotels and transport marketing.

4. Discuss the functions of tour operators and tourism destination operators.

5. What are the strategies for success in hospitality services? Elaborate it.

6. Describe the airlines services and tourism services. Give suitable examples.

7. What is the new concept of health care and wellness services? Explain it with suitable examples.

8. Discuss the hospital services. What are the virtual hospital strategies?

9. Describe banking services and insurance services in India.

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UNIT-16   RETAINING CUSTOMERS

UNIT FRAMEWORK

16.1 OBJECTIVES

After completing this unit you will be able to:

- ➢ to explain the retaining customers
- ➢ to elaborate the concepts of retaining customers
- ➢ to know the process relevance for organization
- ➢ to examine the strategies for retaining customers
- ➢ to discuss the merits and demerits of retaining customers.

16.2 INTRODUCTION

It is often experienced by marketers that not all customers are equally profitable. 80% of customers give 20% of business vice versa. If the above facts are seen from the perspective of serving all the customers at a cost then it would be profitable to preferentially serve those small chunks of customers that yield major part of business while compromising on those customers who are less profitable. Diverting the resources of the business proportionally towards the most profitable customer is order of the day in marketing. Marketers focus more on serving the top profitable customers by developing long term relationships with them and try to retain them from losing to competitors. The customer retention is

the process of engaging existing customers to continue buying products or services from your business. It's different from customer acquisition or lead generation because the customer has already tried your product at least once.

Businesses adopt several tactics to retain their best customers. The best customer retention tactics empower them to strike lasting relationships with consumers who become loyal to their brand. These loyal customers often spread positive word of mouth within their own circles of influence, much like a brand ambassadors.

While most companies traditionally spend more money on customer acquisition because they view it as a quick and effective way of increasing revenue, customer retention often is faster and, on average, costs up to seven times less than customer acquisition. Selling to customers with whom the business already has a relationship is often a more effective way of growing revenue as it doesn't involve costly affairs to attract, educate and persuade new ones to buy firm's product and services. For this reason companies that shift their focus to customer retention often find it to be a more efficient process because they are marketing to customers who already have expressed an interest in the products and are engaged with the brand, making it easier to capitalize on their experiences with the company. In fact, retention is a more sustainable business model that is a key to sustainable growth. The proof is in the numbers: according to studies done by Bain & Company, increasing customer retention by 5% can lead to an increase in profits of 25% – 95%, and the likelihood of converting an existing customer into a repeat customer is 60% – 70%, while the probability of converting a new lead is 5% – 20%, at best.

16.3 RETAINING CUSTOMERS

Customer retention refers to the ability of a company or product to retain its customers over some specified period. High customer retention means customers of the product or business tend to return to, continue to buy or in some other way not defect to another product or business, or to non-use entirely. Selling organizations generally attempt to reduce customer defections. Customer retention starts with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship and successful retention efforts take this entire lifecycle into account. A company's ability to attract and retain new customers is related not only to its product or services, but also to the way it services its existing customers, the value the customers actually generate as a result of utilizing the solutions, and the reputation it creates within and across the marketplace.

Successful customer retention involves more than giving the customer what they expect. Generating loyal advocates of the brand might mean exceeding customer expectations. Creating customer retaining puts 'customer value rather than maximizing profits and shareholder value at the center of business strategy. The key differentiation in a competitive environment is often the delivery of a consistently high standard of customer service. Furthermore, in the emerging world of Customer Success Retention is a major objective.

16.4 CONCEPTS OF RETAINING CUSTOMERS

A Definition of Customer Retention

Customer retention refers to the activities and actions companies and organizations take to reduce the number of customer defections. The goal of customer retention programs is to help companies retain as many customers as possible, often through customer retaining and brand retaining initiatives. It is important to remember that customer retention begins with the first contact a customer has with a company and continues throughout the entire lifetime of the relationship.

Obviously, established companies and organizations need to focus on customer retention. More important, companies are finding that customer profitability tends to increase over the life of a retained customer, so employing customer retention strategies is a worthwhile use of company resources. We have compiled some of the more successful customer retention strategies and techniques and outline them here, for your convenience:

- **Set customer expectations** – Set customer expectations early and a little lower than you can provide to eliminate uncertainty about the level of your service and ensure you always deliver on your promises.

- **Become the customers' trusted advisor** – You need to be the expert in your particular field, so that you can gain customers' trust and build customer retaining.

- **Use relationships to build trust** – Build relationships with customers in a way that fosters trust. Do this through shared values and fostering customer relationships.

- **Take a proactive approach to customer service** – Implement anticipatory service so that you can eliminate problems before they occur.

- **Use social media to build relationships** – Use LinkedIn, Twitter, and Facebook to connect and communicate with customers and give them a space for sharing experiences with your company, so they can become brand ambassadors.

- **Go the extra mile** – Going above and beyond will build strong relationships with customers and build long-term retaining by paying attention to their needs and issues.

- **Make it personal** – Personalized service improves customer experience and is something customers are expecting and demanding. Make their experience personal to strengthen the bond with your brand.

MEASUREMENT OF CUSTOMER RETENTION

The measurement of customer retention should distinguish between behavioral intentions and actual customer behaviors. The use of behavioral intentions as an indicator of customer retention is based on the premise that intentions are a strong predictor of future behaviors, such that customers who

express a stronger repurchase intention toward a brand or firm will also exhibit stronger corresponding behaviors. Customer repurchases and retention behaviors can be measured in a variety of different ways which are enumerated in several award-winning articles published in the marketing discipline. The different studies that also involve different metrics to measure customer repurchase intention and actual repurchase behaviors are summarized in a series of review papers such as Keiningham and colleagues (2007), Gupta and Zeithaml (2006), and Morgan and Rego (2006). These studies point to the following general conclusions:

➤ Customer satisfaction is strong predictors of both customers repurchase intentions and repurchases behavior.

➤ Repurchase intentions are statistically significantly, and positively associated with repurchase behavior: as people repurchase intention increases, so does their likelihood to actually repurchase the brand. However, the magnitude of the association, though positive, is moderate to weak suggesting that intentions and behaviors are not interchangeable constructs to measure customer retention.

➤ The association between different retention metrics is not always straightforward. It can be (a) non-linear exhibiting increasing or diminishing returns, (b) different for different customer segments), and also vary by type of industry.

➤ Customer retention is a strong predictor of a firm's financial success, both using accounting and stock market metrics. A study of a Brazilian bank showed that bank branches that were more adept at efficiently satisfying and retaining customers were more profitable than their counterparts that did one or the other but not both.

In terms of measurement, the intention measures can typically be obtained using scale-items embedded in a customer survey. The retention behaviors must be measured using secondary data such as/ accounting measures of the volume (amount and financial value) and frequency with which a customer purchases the firm's goods or services. This requires that the firm should have a strong customer information management department that can capture all the relevant metrics that may be needed for analysis. In a typical firm, these may come from a diverse set of departments such as accounting, sales, marketing, finance, logistics, and other customer research.

16.5 PROCESS RELEVANCE FOR ORGANIZATION

It is difficult to exactly define customer retention as it is a variable process. A basic definition could be '**customer retention is the process when customers continue to buy products and services within a determine time period**'. However this definition is not applicable for most of the high end and low purchase frequency products as each and every product is not purchased by the customer. For example in the stock brokerage industry, a customer may not buy a particular scrip in the given period of time but is tended to buy the same when the conditions to buy the scrip becomes favorable and when the customer

evaluates that now this scrip could be profitable to buy. In this case the definition of customer retention could be 'customer retention is the process when customer is intended to buy the product and services at next favorable buy occasion'. These products are called as long purchase cycle products.

In some scenarios customer's buying intentions cannot be determined with respect to financial aspects. For example, some magazines are available online for free and there are no intended charges to read these magazines. A reader who is frequently reading every edition of magazine online could be considered as retained customer as through his intentional behavior he shows the magazine company that he likes the magazine content and he tends to maintain a valuable relationship with the company. Hence this magnifies one more aspect in customer retention definition that revenue is not the deciding criteria that indicates that the customer is retained or not.

Customer retention highly depends on attrition and silent attrition rates. Attrition is the process when customers no longer want to use product and services provided by the supplier and breaks the relationship bond by informing the supplier that he will be no more a customer. Most of the defecting customers don't even intimate the supplier that they are defecting. This process is called silent attrition where the customer stops purchasing the product and services and divert to other suppliers without even informing them. During attrition, organization should prepare serious customer retaining strategies to save the customer to defect. It is often seen that if these corrective measures are implemented successfully to save defection then retention level increases to a much higher level as compared to a normal retention process. Silent attrition causes the real damage to the organizations because they do not even know when the customer defected. They find no time to implement the corrective measures to try retaining that particular customer or even determine if the customer can be retained or not.

Customer retention does not make sure that the customer is loyal. For example, a brokerage firm has both traditional trading platform and online trading platform. A customer has his trading account in traditional platform but after some time he feels to switch to online trading platform. Now in this situation, the customer is not considered to be loyal to the given services, but the customer is said to be retained by the same organization.

Customer retention management is the process of managing the customer experience and customer satisfaction efforts within your organization, with the ultimate goal of keeping the customers you acquire for as long as possible. There are 4 key elements of customer retention management and they are:

1. **Customer acquisition**: Whilst it may at first seem odd to have customer acquisition (winning new customers) as a part of the customer retention management process, it's critical to have it here at the start. Any organization's customer retention efforts must begin by trying to win the right customers in the first place. Targeting and onboarding the wrong customers are a frighteningly easy mistake to make. But these customers are square pegs in round holes and will quickly defect, sending your acquisition and customer support costs skyrocketing.

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2. **Customer retention:** Whilst customer acquisition is important, so many businesses stop there and fail to actively try and retain the customers they win. Customer retention is basically the efforts your organization makes to profitably retain the customers you attract. Not all customers will necessarily be profitable for a business, and it's important to look at customers that can (and should) be grown, and customers that should be fired! It's also the case that satisfied customers who've bought from you in the long term are generally happier to provide references and act to refer you on to their colleagues.

3. **Customer lifecycle management:** CLM requires you to look at the different touch points you have with your customers (even those touch points that happen before a potential customer buys) and work out how to raise those experiences well above the industry standard. This is an important part of customer retention management, as you are broadening the program beyond just stopping customers leaving, and instead you are creating a complete ecosystem which they actively want to join, and stay a part of.

4. **Customer development and growth:** Customer development is focused around how you can grow the amount your existing customers are spending with you. Key account marketing, cross and up sell marketing activities all fall into this category. The importance of customer retention is highly significant in growing your business, read on to learn about customer retention rates, and how to make use of the data.

16.6 STRATEGIES FOR RETAINING CUSTOMERS

The easiest way to grow your customers is not to lose them. The consequences of customer retention also compound over time, and in sometimes unexpected ways. Even a tiny change in customer retention can cascade through a business system and multiply over time. The resulting effect on long-term profit and growth shouldn't be underestimated. Marketing wisdom can introduce you to a number of simple customer retention strategies that will cost you little or nothing to implement. Behind each technique listed here there is an in-depth step-by-step process that will increase your customer retention significantly once implemented, and will have a massive impact on your business.

To stay relevant and keep your best customers happy, it's super important to continuously optimize and update your customer retention strategies. Everything from customer marketing with campaigns based on shopper feedback to improving your Omni channel strategy can help you boost customer retention and increase trust and retaining. Since there's so much noise out there about customer retention strategies, we went straight to the top agencies and tech companies in the e-Commerce ecosystem and asked them to share their most effective tips.

Customer retention is a strategic process to keep or retain the existing customers and not letting them to diverge or defect to other suppliers or organization for business and this is only possible when there is a quality

relationship between customer and supplier. Usually a customer is tended towards sticking to a particular brand or product as far as his basic needs are continued to be properly fulfilled. He does not opt for taking a risk in going for a new product. More is the possibility to retain customers the more is the probability of net growth of business. Here are the top 15 customer retention strategies, according to the industry experts:

1. **Reducing Attrition:** Virtually every business loses some customers, but few ever measure or recognise how many of their customers become inactive. Most businesses, ironically, invest an enormous amount of time, effort and expense building that initial customer relationship. Then they let that relationship go unattended, in some cases even losing interest as soon as the sale has been made, or even worse, they abandon the customer as soon as an easily remedied problem occurs, only to have to spend another small fortune to replace that customer. The easiest way to grow your business is not to lose your customers. Once you stop the leakage, it's often possible to double or triple your growth rate because you're no longer forced to make up lost ground just to stand still.

2. **Sell and then sell again:** So many people do an excellent job of making the initial sale, then drop the ball and get complacent, ignoring the customer, while they chase more business. Your selling has actually only just begun when someone makes that initial purchase decision because virtually everyone is susceptible to buyer's remorse. To lock in that sale, and all of the referrals and repeat business that will flow from it, you need to strike while the iron is hot to allay your customers' fears and demonstrate by your actions that you really care. You should thank them and remind them again why they've made the right decision to deal with you and put a system in place to sell to them again, and again, constantly proving that they made the right decision.

3. **Create peaks in the customer experience:** A few unique, low-cost initiatives can go a long way to delighting your customers and building loyalty. Think of the last time you received a welcome surprise, it is probably easier to recall than its unwelcome counterpart. Find milestones in the customer relationship and find ways to reward customers that they won't expect. For example, imagine a customer orders their third pair of shoes. A week later, they receive a pair of socks that match with a handwritten note thanking them for their business. These type of unexpected displays of appreciation could go a long way (especially in the social sharing world) to improve customer experience and offsetting the cost of the item many times over.

4. **Continuously test email strategies:** In addition to using the data you already have on your customers like what they have purchased or browsed to tailor the content and product recommendations in your email marketing campaigns, be sure to also constantly test incentives and other factors to see what is most effective. For example, find out which subject lines elicit the most opens and what cadence of email increases customer engagement for your audience.

5. **Bring back the "lost sheep":** There's little point in dedicating massive resources to generating new customers when 25-60% of your dormant customers will be receptive to your attempts to regenerate their business if you approach them the right way, with the right offer. Reactivating customers who already know you and your product is one of the easiest, quickest ways to increase your revenues. Re-contacting and reminding them of your existence, finding out why they're no longer buying, overcoming their objections and demonstrating that you still value and respect them will usually result in a tremendous bounty of sales and drastically increased revenues in a matter of days and will lead to some of your best and most loyal customers.

6. **Frequent Communications Calendar:** Avoid losing your customers by building relationships and keeping in touch using a rolling calendar of communications. This is a programmed sequence of letters, events, phone calls, "thank you", special offers, follow-ups, magic moments, and cards or notes with a personal touch etc. that occur constantly and automatically at defined points in the pre-sales, sales and post-sales process. People not only respond to this positively, they really appreciate it because they feel valued and important. It acknowledges them, keeps them informed, offsets post-purchase doubts, reinforces the reason they're doing business with you and makes them feel part of your business so that they want to come back again and again.

7. **Tailor your loyalty program to your business goals:** Customer loyalty and retention are not one-size-fits-all. The best loyalty programs incentivize the actions that matter most to your brand. For example, if you're looking to boost lifetime value, you'll want to base VIP tiers on spending behavior, like the total amount a customer spends or the number of times they purchase. But if you want to incentivize brand engagement, you should focus on actions like social shares, writing reviews, or referring friends.

8. **Be where your customers are:** Consumer behavior has undoubtedly evolved. It's the consumer who now dictates to brands where, when, and how they want to engage. Therefore, it's incumbent upon retailers to provide a consistent and seamless experience on all channels; particularly when something goes wrong and customers need help. Research from Zen desk suggests that 87% of customers think brands need to put more effort into providing a seamless customer service experience.

9. **Extraordinary Customer Service:** The never-ending pursuit of excellence to keep customers so satisfied that they tell others how well they were treated when doing business with you. Moving the product or service you deliver into the realm of the extraordinary by delivering higher than expected levels of service to each and every customer. Key facets include: dedication to customer satisfaction by every employee; providing immediate response; no buck passing; going above and beyond the call of duty; consistent on-time delivery; delivering what you promise before AND after the sale; a zero-defects and error-free-delivery process and recruiting outstanding people to deliver your customer service.

Extraordinary service builds fortunes in repeat customers, whereas poor service will drive your customers to your competition.

10. **Product or service integrity:** Long-term success and customer retention belongs to those who do not take ethical shortcuts. There must always be total consistency between what you say and do and what your customer's experience. The design, build quality, reliability and serviceability of your product or service must be of the standard your customers want, need and expect. Service integrity is also demonstrated by the way you handle the small things, as well as the large. Customers will be attracted to you if you are open and honest with them, care for them, take a genuine interest in them, don't let them down and practice what you preach and they will avoid you if you don't.

11. **Measure lifetime value:** There's a vast difference between the one-off profit you might make on an average sale, which ignores the bigger picture, and the total aggregate profit your average customer represents over the lifetime of their business relationship with you. Once you recognise how much combined profit a customer represents to your business when they purchase from you again and again, over the months, years or decades, you'll realise the critical importance of taking good care of your customers. And because you'll understand just how much time, effort and expense you can afford to invest in retaining that customer, you'll be in control of your marketing expenditure.

12. **Offer time-limited promotions:** Top e-Commerce brands often present banners highlighting a time-limited promotion visitors must complete the purchase within a preset amount of time, determined by the audience segment they belong to. In addition, you can automatically add the promotional gift card to the visitor's cart and highlight the promotion during the checkout process. The benefit is twofold: the time-sensitive promotion boosts conversion rate and the gift card brings customers back to the website to make another purchase.

13. **Don't over-promise:** Align expectations with your customers regularly. Keep in mind that they only know what you tell them. Over-promising and under-delivering is an easy way to lose credibility. Improving customer trust goes a long way towards getting shoppers to love your brand so keep everything from product descriptions to promotional offers as accurate as possible.

14. **A complaint is a gift:** 96 percent of dissatisfied customers don't complain. They just walk away, and you'll never know why. That's because they often don't know how to complain, or can't be bothered, or are too frightened, or don't believe it'll make any difference. Whilst they may not tell you what's wrong, they will certainly tell plenty of others. A system for unearthing complaints can therefore be the lifeblood of your business, because customers who complain are giving you a gift, they're still talking to you, they're giving you another opportunity to return them to a state of satisfaction and delight them and the manner in which you respond gives you another chance to show what you're made of and create even greater customer loyalty.

15. **Create a customer community around your brand:** People don't actually connect with your brand; they connect with the other people that connect to your brand. Give those people a voice on your website to remind your guests they aren't buying a "product" they are buying their way into a community of like-minded people, or people they want to be more like.

16.7 MERITS OF RETAINING CUSTOMERS

It's hard to believe that so many companies still devote most of their resources to new business. Don't get us wrong, a new customer is always a worthy pursuit. But this laser focus on the present often comes at the expense of the future. Customer retention may not have all the femininity appeal, but it's definitely more profitable. Even better, profits are just one of the positive aspects of retention and loyalty. Some of the merits are as follows:

1. **It's Cheaper than Acquisition:** While the old adage about "it costs five times as much to acquire a new customer" may not be totally accurate, the basic principle is spot on: it's more cost-effective to keep someone in the fold than to bring in new customers. Even still, if it's data you want, there has been plenty of research into acquisition vs retention, and every one of them has come back with the economics favoring retention as the more economically viable focus. One caveat though: retention is cheaper than acquisition, but it probably isn't easier.

2. **Loyal Customers are More Profitable:** Not only is loyalty cheaper, it has better returns. According to research, engaged consumers buy 90% more frequently, spend 60% more per transaction and are five times more likely to indicate it is the only brand they would purchase in the future. On average, they're delivering 23% more revenue and profitability over the average customer. While loyal customers are more profitable, don't take their loyalty for granted. They'll be more open to price increases, but be cautious not to raise prices simply to see how long they'll stick around. Lifetime revenue is the end goal, not just today's revenue. Consider the flipside: "Actively disengaged" customers (people who oppose the brand and may be actively spreading that opinion) can cost a brand 13% of its revenue.

3. **Your Brand will stand out from the Crowd:** Put your consumer hat on, and consider how many brands you interact with that actually seem to value your patronage. You can probably only think of one or two. Most brands focus on acquisition, which makes the retention-centric among us stand out even more. People see around 10,000 marketing exposures a day, but only engage with a few of them. The ones that earn continual engagement are those with whom they feel a connection with on some level. Forget a unique selling proposition; the best brands have a unique retention proposition.

4. **You'll earn More Word of Mouth Referrals:** Your loyal customers will be your best source of new business. Despite all the efforts into online and

mobile marketing and social media, people are still most strongly influenced by referrals from friends and family. Millennial in particular will spread the word of a brand's exploits - 90% share their brand preferences online.

5. **Engaged Customers Provide More Feedback:** Feedback is critical to the success of any business. Customers who provide feedback is often willing to give brand the benefit of the doubt. They're telling you how to earn their business repeatedly. As research has shown, people who have complained and seen their issue resolved are 84% less likely to decrease their spend. Need help dealing with the customers who are providing nasty feedback? Read this.

6. **Customers Will Explore Your Brand:** That's a nice way of saying you'll be able to sell them more stuff. Once a brand has proven itself with one product or service, customers are six times more likely to say they would try a new product or service from the brand as soon as it becomes available. That's not just valuable for sales, but these folks can be utilized to help with $5 above as beta testers a critical element in product development.

7. **Loyal Customers are More Forgiving:** An Accenture study states over $1.6 trillion is lost each year due to customers bailing after a poor service experience. We've gone so far as to claim that it's the top reason people will ditch a brand. But customers who consider themselves loyal will let some misdeeds slide - just don't let it happen too often.

8. **Customers Will Welcome Your Marketing:** No one likes being marketed to. Except for loyal customers! Those folks are four times more likely to say they "appreciate when this brand reaches out to me" and seven times more likely to "always respond to this brand's promotional offers."

9. **You Earn Wiggle Room to Try New Things:** Loyalty is fickle, so too many changes could chase people away. But once you've established a core base of proven customers, your brand can expand its boundaries. Maybe it's new messaging or a new product line, or even a new logo. The bottom line is as long as you maintain the basic premises that keep people in your corner; they'll stick with you through thin and thin. In fact, some of them will be excited to see what you can do. Existing customers are 50% more likely to try new products, according to a study.

10. **it's better for Employee Health:** Customer retention is basically relationship building. Good relationships make life better for everyone. They're mutually beneficial. Sales, on the other hand, are transactional. They're very price-sensitive and come with a lot of "What have you done for me lately?" attachments. Meeting regular quotas that rely on converting strangers into revenue is not for the fainthearted. To a business, being relational makes everything easier. Customers are less likely to fly off the handle at the first sign of distress. That protects your revenue and makes life easier on your employees - who play a huge role in customer loyalty.

Go All-In on Retention

In those ten benefits, we've covered a gamut of profitable business activities - revenue generation, product development, marketing, customer feedback, branding, differentiation, and more. And each one of them is a natural byproduct of focusing on customer retention.

Rewards and loyalty programs, special promotions, discount programs, advanced CRM systems, even employee perks are all ways you can actively invest in customer retention. The spend is likely to be less than your new business activities, yet the rate of return should be just as high. The overall impact on a business is probably incalculable, considering all the different aspects that are impacted. The most important thing is to not lose sight of your existing customers in pursuit of new ones.

16.8 DEMERITS OF RETAINING CUSTOMERS

Remember that nobody doubts the importance of retaining customers. The debate is about the retaining program's power in creating more retaining customers. This is because not all retaining programs are successful. Some of them have failed due to their undifferentiated appeal and some due to the wrong implementation. Some have also failed due to the wrong value proposition. Understanding the aforementioned pros and cons of retaining programs will help in refraining from such mistakes.

However, this point on the list of pros and cons of retaining programs can be addressed by merging your retaining program with advocate marketing tactics. Reward customers for referring friends, writing reviews, and the like. This will make it simpler to see who's just a frequent buyer and who among your retaining customers is actually willing to vouch for you.

1. **Difficulty in Pinpointing Where Retaining Behavior Actually Comes from:** It's very hard for the retaining framework to break away from the transactional spirit. More than often, it appears that the one who is a frequent buyer is a retaining one. But that may not be the case, as he may be buying from the company just because that's convenient for him. Or, he may be buying just for the benefits that the retaining program is giving him in the form of rewards. Thus, retaining, which in essence is an emotion, may not be gauged by the retaining program.

2. **Balancing the Bottom Line:** Out of all the pros and cons of retaining programs, the financial component is the most stressful. Discounts, regardless of the form, are going to hurt the bottom line of a company. The key to moving beyond this financial loss is to make sure that your retaining program is fairly priced and effective. If the program really is increasing repeat purchases and average order value, then as long as your discounts are balanced you'll have no problem recouping the losses. For more information on the financial aspect of retaining programs, check out our post on retaining points liability management.

3. **Loyalty comes at a Price:** Rewards programs can be expensive. Discounts are discounts regardless of how you package them, and they are going to affect your bottom line. Let's say a typical $50 sale results in $10 in profit. Offering a 5 percent retaining discount will result in a 50 percent decrease in profits. In the end, what appears to be a small discount can have a significant impact?

    That said 75 percent of U.S. companies that have retaining programs generate a return on investment. If your discounts are balanced and your program is effective at increasing repeat purchases and average order value, you should be able to recoup any losses.

4. **Data has its Limitations:** Retaining data often provides a limited picture of a consumer's overall purchase behavior. For instance, it cannot track purchases from other brands and stores. Some of your most retaining customers may be too uncomfortable to share sensitive information in order to get the incentives of the program.

5. **Market Saturation:** Just like the products, retaining programs are everywhere and may appear identical. They all have similar membership provisions, purchase requirements, and benefits. But in this ultra-competitive world, firms are unable to pull back from their retaining program commitments due to the fear of lost sales.

6. **Past Customer Profitability Doesn't Always Guarantee Future Profitability:** Retaining programs hope to bring more repurchases based on the historical behavior of customers. But with time, their incomes, needs, and lifestyles change. Naturally, their buying patterns also change. Clearly, people prefer to opt out of the old form of retaining program. A Maritz poll indicated the same by finding that four out of ten retaining program participants quit at least one program. That's the reason why some experts are justifiably critical of measures of retaining like RFM (Regency, Frequency, and Monetary Value). RFM is a good measurement tool for customer retaining, but it's far from perfect.

7. **Limitations of Retaining Data:** As retaining data does not look at the purchases from other brands and stores, it provides a limited picture of consumers' overall purchase behavior. Customer panel data may also be more representative than retaining card member data. Furthermore, customers may feel offended if they are uncomfortable sharing sensitive information in order to get the incentives of the program.

However, it's possible to address this point on the list of the pros and cons of retaining programs by incentivizing customers to share their other purchase data by rewarding them for submitting third-party receipts to you. Whether they do so by scanning physical receipts or by forwarding e-receipts, you can gather this information to reward them for their purchases of your goods while also processing the receipts for additional information. Learn more about this tactic here.

16.9 SUMMARY

Companies marketing efforts include attracting, educating and persuading customers to buy their products. They compete with their rival companies to take away each other's customers and then convince them to try their own products. However it is a costly affair to better way out is to retain their existing most profitable customers. The goal of customer retention programs is to help companies retain as many customers as possible through many initiatives. So employing customer retention strategies is worthwhile use of company resources. Some of the successful customer retention strategies and techniques are Setting customer expectations early and a little lower than the level of your service and ensure you always deliver on your promises, To become the customers' trusted advisor, To build relationships with customers in a way that fosters trust through shared values, Taking a proactive approach to customer service, To connect and communicate with customers using social media and give them a space for sharing experiences with your company so they can become brand ambassadors, Going the extra mile by paying attention to their needs and issues and build strong relationships with customers for long-term retention and finally, to make their experience personal by providing personalized services to strengthen the bond with your brand.

Usually the collection of data on consumer's intent should be corroborated with the actual secondary data of consumer's behaviour to understand the effectiveness of the customer retention efforts. The firm should have a strong customer information management department that can capture all the relevant metrics that may be needed for analysis. such secondary data on consumers behaviour usually is collected from diverse set of departments such as accounting, sales, marketing, finance, logistics, and others in a typical firm.

There are 4 key elements of customer retention management; these are Customer acquisition, Customer retention, Customer lifecycle management and Customer development and growth.

The overall experience from industry experts suggest that various companies adopt following leading set of customer retention strategies which include Reducing Attrition, Sell and then sell again, Create peaks in the customer experience, Continuously test email strategies, Bring back the "lost sheep", Frequent Communications Calendar, Tailor your loyalty program to your business goals, Be where your customers are, Extraordinary Customer Service, Product or service integrity, Measure lifetime value, Offer time-limited promotions, Don't over-promise, A complaint is a gift, and finally to Create a customer community around your brand.

There are several advantages of customer retention efforts which culminate into profitable business activities such as increased revenue generation, product development, efficient marketing, productive customer feedback, optimal branding, enhanced differentiation, and more. However Customer retention program also involves increased cost if the targeted customer base is not the most profitable ones, if the expectations of the preferential customers is not managed well and if the efforts are compromised by marketing team or if the markets are

saturated or if the market research is based on false premise then the overall profitability erodes.

16.10 SELF-ASSESSMENT QUESTIONS

1. What do you understand by retaining customers? Explain it.

2. Explain the concepts of retaining customers with giving suitable examples.

3. What is the process relevance for organizations? Discuss it.

4. What are the strategies for retaining customers?

5. Describe the merits of retaining customers.

6. Discuss the demerits of retaining customers.

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BLOCK

5

MARKETING OF SERVICES : A GLOBAL PERSPECTIVE

UNIT-17

Services in Global Perspective

UNIT-18

Organizing For Global Marketing

UNIT-19

Financial Services Marketing

UNIT-20

Case Study On Financial Services Marketing

ETH-103 / ETH-085

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BLOCK INTRODUCTION

In **Block 5** you have learnt about the industrial & service marketing; services in global perspective, and case study on financial services marketing.

Unit 17 discusses about services in global perspective; international marketing of services; recent trends and principle driving force.

Unit 18 deals with: organizing for global marketing; organizing for global marketing; key decisions in global marketing; and services strategy for global marketing.

Unit 19 explains financial service marketing; financial services and consumers; financial institutions; financial products; management of banking services and mutual fund marketing.

Unit 20 elaborate the case study on financial services marketing; case study – 1: impacts of key trends in Indian telecom industry; case study – 2: sahara's loss is passenger's gain; and case study-3: how dire is India's bad debts problem and what you need to know about it.

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UNIT-17 SERVICES IN GLOBAL PERSPECTIVE

UNIT FRAMEWORK

17.1 OBJECTIVES

After completing this unit you will be able to:

➢ to explain the services in global perspective

➢ to elaborate international marketing of services

➢ to recognize the recent trends and principal driving force

➢ to discuss the principal driving force.

17.2 INTRODUCTION

International Marketing is defined as the performance of business activities designed to plan, price, promote, and direct the flow of a company's goods and services to consumers or users in more than one nation for consideration of a profit. The only difference between the definitions of domestic marketing and international marketing is the scope of their operations, in the latter case, marketing activities take place in more than one country. No matter domestic or international, the marketing objective remains the same for marketers. The objective is to make profit by selling products or services in geographies which have a demand for them.

The major objectives of international marketing are outlined as follows:

➢ To enhance free trade at a global level and attempt to bring all the countries together for the purpose of trading.

➢ To increase globalization by integrating the economies of different countries.

➢ To achieve world peace by building trade relations among different nations.

➢ To promote social and cultural exchange among the nations.

➢ To assist developing countries in their economic and industrial growth by inviting them to the international market thus eliminating the gap between the developed and the developing countries.

➢ To assure sustainable management of resources globally.

➢ To propel export and import of goods globally and distribute the profit among all participating countries.

➢ To maintain free and fair trade.

International marketing aims to achieve all the objectives and establish a connection among the nations that participate in global trade. Establishing a business in one's home country has limited restrictions and demands but when it comes to marketing at international level, one has to consider every minute detail and the complexities involved therein. In such instances, the demand grows as the market expands, preferences change and the company has to abide by the rules and regulations of two or more countries.

17.3 SERVICES IN GLOBAL PERSPECTIVE

A global perspective is when someone can think about a situation as it relates to the rest of the world. It may seem silly to some that every business should be concerned with what goes on in another country, but today we're all connected in a lot of ways. With the use of the Internet as a means of reaching customers, every mom-and-pop store on the corner can now compete on a global scale, when you think about it. Today's fast-paced, Internet-driven business environment calls for more than just a local perspective of management. Highly effective managers need to see things based on how their company functions in the big picture of the new global economy.

Services perform several important functions to promote the development in all countries especially in a developing economy. This sector provides infrastructure, education, health, banking, finances, highly rated technical services, software programming and many other aspects. Thus, it creates meaningful linkages of services with almost all sectors of the economy. Nationally, services contribution in a country GDP and employment generation is only a part of the role of services, in a country development. Services also impart a meaningful role in all aspects of cultural life of a country and thus, it adds to development process. In comparison with manufacturing firms, Service firms appear to be:

- ➢ Generally less likely to have marketing mix.
- ➢ Less likely to perform analysis in the offering area
- ➢ Less likely to have an overall plan for sale of services.
- ➢ Less likely to develop sales training programs.
- ➢ Less likely to use marketing consultants and marketing research firms.
- ➢ Less likely to spend much on marketing in terms of percentage on gross sales.

More likely to have their advertising internally rather than going for external advertisement. Because of increased competition and costs, productivity has stagnated and service quality has come down. And now many service organizations are taking interest in marketing their services. Service agencies have moved from hostility to marketing and now towards aggressive marketing within a short period of time. Presently, one of the main needs in Service marketing is to find the ways to increase its productivity. As the service sector is labor intense, due to the rise in labor costs, firms are facing many problems. As a service economy continuous to grow both in size and importance, the scale of service marketing internationally can be seen to be increasing dramatically. This increase in inevitable, if service organization are to grow and survive in today's global marketplace, they have to develop their international operations. Obviously, trends in international trade will affect all service to lesser and greater degree.

BENEFITS AND DRAWBACKS

Chances are you know someone who owns a phone. Just where did that phone come from? The person (maybe yourself) who purchased it went to the local store and paid for the new device, but what exactly did it take to get that phone to the store? Many phones are designed and have operating systems from the United States; rare minerals in the phone's circuitry mainly come from China and Mongolia; they use processors made in Korea and Taiwan; and gyroscopes (so the screen flips when you turn it) from Europe, with most of the phones being assembled back in China. Many of the items we use every day have parts from or are put together in another country.

A manager with a local mindset would not know where to start coordinating all of these parts or even figure out from where to outsource them. Outsourcing is when companies do not do all of the work themselves but hire another company (often overseas) to complete some part of the work based on cheaper labor or material costs. Managers with a global perspective are able to research where materials originate in the world and seek to take advantage of cost savings by purchasing them right from the source. Labor costs are often one of the largest considerations when it comes to manufacturing products. There are many other countries that have much lower labor costs than we do here in the United States.

After adding up all of the cost savings for materials and labor, it would seem that doing business globally is the best way to go in every case. Well, not

quite! There are also some drawbacks that global managers must be aware of when it comes to using the entire world as your office. Each country has its own rules for international trade, in the form of tariffs, trade restrictions, or government regulations that are meant to protect the host country's companies and resources. Even though a nation might have the cheapest cost for a particular mineral, the costs of getting it out of the country may not be worth it in the end.

17.4 INTERNATIONAL MARKETING OF SERVICES

The international business environment has changed drastically thanks to globalization and market liberalization. Widespread use of electronic channels in marketing and product distribution has intensified competition in global markets. As such, service businesses targeting foreign growth are embracing international marketing strategies to remain competitive.

1. **International Networks:** Service businesses that build and maintain international networks build close relationships with customers. This allows them to raise sales while expanding their market presence abroad. Taking advantage of Internet-based promotional and networking platforms, such as social media, lets them reap maximum benefits in market penetration strategies. Digital platforms are particularly useful for small and medium-size service companies engaging in international promotion because they are fairly affordable and easily accessible.

2. **International Audience:** Services are intangible products generally delivered through interactive channels. They are offered either as primary products or as supplementary components, according to the Management Study Guide. For example, legal representation is a primary service while computer networking is complimentary. International service marketing looks to create awareness of new and existing services in the target markets and public domains of foreign countries.

3. **Promoting Differentiation:** International service marketing is an important platform for brand differentiation among service companies offering similar and related products in foreign markets. Indeed, brand recognition enables service companies to stand out and remain competitive. That makes a promotional campaign that engages the audience while establishing brand awareness as critical as the investment required to operate on an international basis.

4. **Cultural Expectations:** International service marketing enables businesses to acknowledge cultural differences when advertising in foreign countries. For example, when the American Family Life Assurance Co. (AFLAC) introduced its famous ''Duck'' ad campaign in Japan it used a stuffed doll because the use of live animals in commercials was not common practice there. The campaign went on to gain iconic status when AFLAC created the Maneki Neko Duck from the combination of the Duck and Maneki Neko, a famous white cat associated with luck in some Asian countries. AFLAC's efforts to meet the expectations of Japanese society underscored the significance of aligning service marketing to cultural sensitivities.

Difference between Domestic and International Marketing

1. Domestic marketing is the production, promotion, distribution, and sale of goods and services in a local market while international market is the production, promotion, distribution, and sale of goods and services in a global market.

2. Domestic marketing is less risky and easier to conduct while international marketing is more risky and more complex.

3. Domestic marketing requires lesser financial resources while international marketing requires huge financial resources.

4. Domestic marketing deals with only a single market while international marketing deals with several different countries and markets.

5. Although both use all the basic marketing principles, international marketing is more challenging and requires more commitment from the company because of the uncertainty and differences in laws and regulations in the global market while domestic marketing deals only with the laws and regulations of one country.

6. Domestic marketing deals only with one set of consumers while international marketing deals with different types of consumers with different tastes.

7. In domestic marketing, the company can have the same policies and strategies while international marketing requires different strategies in the promotion of their products.

17.5 RECENT TRENDS

As the economy grows slowly at home, your business may have to look at selling internationally to remain profitable. Before examining foreign markets, you have to be aware of the major trends in international business so you can take advantage of those that might favor your company. International markets are evolving rapidly, and you can take advantage of the changing environment to create a niche for your company.

1. **Growing Emerging Markets:** Developing countries will see the highest economic growth as they come closer to the standards of living of the developed world. If you want your business to grow rapidly, consider selling into one of these emerging markets. Language, financial stability, economic system and local cultural factors can influence which markets you should favor.

2. **Population and Demographic Shifts:** The population of the industrialized world is aging while many developing countries still have very youthful populations. Businesses catering to well-off pensioners can profit from a focus on developed countries, while those targeting young families, mothers and children can look in Latin America, Africa and the Far East for growth.

3. **Speed of Innovation:** The pace of innovation is increasing as many new companies develop new products and improved versions of traditional items. Western companies no longer can expect to be automatically at the forefront of technical development, and this trend will intensify as more businesses in developing countries acquire the expertise to innovate successfully.

4. **More Informed Buyers:** More intense and more rapid communications allow customers everywhere to purchase products made anywhere around the globe and to access information about what to buy. As pricing and quality information become available across all markets, businesses will lose pricing power, especially the power to set different prices in different markets.

5. **Increased Business Competition:** As more businesses enter international markets, Western companies will see increased competition. Because companies based in developing markets often have lower labor costs, the challenge for Western firms is to keep ahead with faster and more effective innovation as well as a high degree of automation.

6. **Slower Economic Growth:** The motor of rapid growth has been the Western economies and the largest of the emerging markets, such as China and Brazil. Western economies are stagnating, and emerging market growth has slowed, so economic growth over the next several years will be slower. International businesses must plan for profitability in the face of more slowly growing demand.

7. **Emergence of Clean Technology:** Environmental factors are already a major influence in the West and will become more so worldwide. Businesses must take into account the environmental impact of their normal operations. They can try to market environmentally friendly technologies internationally. The advantage of this market is that it is expected to grow more rapidly than the overall economy.

International Marketing Examples:

There are plenty of other examples where global giants customized their offering to meet Indian consumer equipment and thrived. Here are few:

➢ When McDonalds entered in India, they did an extensive research before zeroing upon the menu on offer for the Indian consumers. The entire menu was tailor made as per Indian consumer taste. The company stuck to 40% Pure Vegetarian offering unlike any other overseas market. McDonald's also made sure to respect Indian culture by not serving beef or pork recipes which on the other hand were popular ingredients in other markets. McDonalds also made sure to create recipes with Indian spices to match the local taste. You can check the current menu here – McDonald's Indian Menu.

➢ Kellogg's, the global giant when it comes to cereals, entered in India in 1994 and introduced their proprietary 'original' recipe which failed miserably in the Indian subcontinent. The main reason was that Kellogg's

India did not correctly ascertain their competition. Indian consumers were used to local homemade wheat based breakfast recipes. Kellogg's quickly learnt from their mistake and customized their product from their original recipe to wheat flakes, rice flakes etc.

➤ Nokia – Dust resistant phone, anti-slip grip and in built flash light for India rural consumer.

➤ Hindustan Unilever – Introduced shampoo sachets priced at Re 1 for price sensitive Indian consumer.

➤ MTV – Localized programming help to gain wider audience.

All these product localizations translated into success stories in India and helped the brand reach every household in the country. Post the success of these products and familiarity with the brand, it gave companies leeway to experiment with their new offerings and lure consumers to try new variants.

17.6 PRINCIPLE DRIVING FORCE

The driving forces behind globalisation: The production of goods and services has increased around the world due to a number of factors, particularly globalisation. Many companies have gone beyond their national borders to have operations, even in remote corners of the world. McDonald's, Subway, Kellogg's, Walmart, Tesco, Coca Cola, and Pepsi are some of the best examples in this regard.

No doubt that globalisation has increased the production of goods and services throughout the world. So, what is driving globalisation? There are a number of factors which requires attention. Improved transportation, cultural exchange, low barriers to trade, and technological change to name but a few. So, let us now look at some of the driving forces behind globalisation.

➤ **Cultural exchange:** Cultural exchange has been one of the biggest drivers of globalisation. People travel to different countries and share their cultural beliefs and practices with each other. Through this process, a cultural understanding takes place which drives globalisation. Today, people around the world like and use the same smart phones whether they are iPhone, Samsung, HTC, or Sonny Xperia. No wonder why Indian/Bengali curries and Chinese takeaways are so popular in the UK! Likewise, now wonder why people around the globe are crazy for American burgers, software's, movies, and many more!

➤ **Improved transportation:** We live in a 'global village'. People can move around the world fairly quickly due to improved transportation systems. Airlines, ships, large vehicles, and others have improved the delivery time of products to and from abroad. A business man from London can go to Paris to do his 'business' and come back to London on the same day. Likewise, goods can be transported beyond the national border on the same day. This happens in many parts of the world on a daily basis.

- ➢ **Low barriers to trade and investment:** This also drives globalisation significantly. Many of the world trades are currently done through free trade, bilateral, and multilateral agreements. Interestingly, countries which were very hostile or unfriendly to foreign investment few years ago, are inviting other countries for inward foreign direct investment (FDI). China is a very good example in this regard.

- ➢ **Technological change:** Technology is also an important driver of globalisation. Advanced E-commerce system has made the emergence of companies such as Amazon.com, Alibaba.com, ebay.com, and many others possible and successful. Many US and UK companies have outsourced many of their business activities to countries such as China, India, Mexico, Turkey, Bangladesh, and many others. This technological revolution enables traders from remote parts of the world to sell their products/services to customers around the world on virtual platforms.

In a nutshell, there are a number of driving forces behind globalisation. Many companies are now multinational corporations with subsidiaries around the world. This gives managers more opportunities for growth and development. However, globalisation is not without challenges. In fact, it has its own pitfalls. For instance, according to some analogist's as cited in Saval (2017), local workers in some countries had endured a major fall in the real value of their wages, which dropped by more than 20% because of globalisation.

17.8 SUMMARY

The prominent visible difference between the domestic and international marketing is market itself the former is confined to one country, whereas the latter is spread across two or more countries. a company usually starts as a domestic company but due to several drivers such as saturating domestic markets, disadvantageous economies of scale, impact of global culture and changing consumer preferences, fierce competition and opening of trade boundaries as well as the fast paced innovations encourage domestic companies to take on to the international markets.

There are several advantages and disadvantages associated with going international from domestic setup. Challenges also increase manifold given the cultural differences, geographical and systemic barriers, legal hurdles, and political issues. Marketers have to adopt several measures and modifications to acclimatize with the changing scenario. These include decisions on Market Selection Decision, Market Entry Decision, Marketing Mix Decision and the Organisation Decision if at all they decide to take decision on International Markets Decision (Whether to go for international market?). Marketers conduct several analysis to assess the international markets even before the actually enter into it for example the analysis of Present market opportunities in international market, the Future market opportunities, the expected Market share, assessment of Uncertainties and challenges, Cost-profit estimates and the Return on investment analysis. When the firm is through with all such analysis they work on how to enter the market.

17.9 SELF-ASSESSMENT QUESTIONS

1. What is international marketing of services? Explain it.

2. Discuss the services in global perspective.

3. What is the global marketing of services? Discuss it.

4. What are the recent trends of global marketing services? Explain it with suitable examples.

5. Describe the principle driving force of global marketing services.

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UNIT-18 ORGANIZING FOR GLOBAL MARKETING

UNIT FRAMEWORK

18.1 OBJECTIVES

After completing this unit you will be able to:

➢ to explain the organizing for global marketing

➢ to study the key decisions in global marketing

➢ to discuss the services strategy.

18.2 INTRODUCTION

Global Marketing is defined as the performance of business activities designed to plan, price, promote, and direct the flow of a company's goods and services to consumers or users in more than one nation for consideration of a profit. The only difference between the definitions of domestic marketing and global marketing is the scope of their operations, in the latter case, marketing activities take place in more than one country. No matter domestic or international, the marketing objective remains the same for marketers. The objective is to make profit by selling products or services in geographies which have a demand for them.

Global marketing aims to achieve all the objectives and establish a connection among the nations that participate in global trade. Establishing a business in one's home country has limited restrictions and demands but when it comes to marketing at international level, one has to consider every minute detail and the complexities involved therein. In such instances, the demand grows as the market expands, preferences change and the company has to abide by the rules and regulations of two or more countries.

18.3 ORGANIZING FOR GLOBAL MARKETING

There is no right way to tackle global markets. When deciding upon a structure that best matches your international needs, the objective should be to create the most efficient system based on the needs of your company, your shareholders, and your products and services. Ultimately, the structure must be strong enough to achieve corporate goals and flexible enough to withstand market pressures.

By definition, international marketing is the performance of business activities that direct a flow of goods and services to consumers or users in more than one nation for a profit. Depending upon your source, there are four or five basic marketing structures that can support these activities and several operational factors that can impact your decision of which structure will work best for your organization.

> **Operational Underpinnings:** While the exact descriptions vary somewhat, marketing structures should be developed based upon the operational arrangement of a company. Begin by identifying with which operational arrangement you are dealing. The company may be a multinational organization with primarily overseas operation and a portfolio of independent, often country-specific, product brands. Or, it may be arranged as an international company in name, but function primarily as a domestic operation with overseas sales operations viewed as profit appendages. A third operational arrangement is more global, consisting of overseas manufacturing and a sales pipeline delivery to a unified global market. A fourth operational structure is the most complex: an organized, integrated network in which overseas operations may manufacture product components in one country, assemble in another, distribute globally, but manage product sales people, or information among geographically-dispersed, but interdependent units.

> **The Basic Decision: Centralized versus Decentralized:** Once the underlying operation has been identified, consider how it functions. The first basic marketing structure decision that must be made is whether marketing will be conducted from a centralized location where decisions are made at headquarters (HQ) and simply executed in the field, or if decision-making will be decentralized; made independently in the regions or countries where the manufacturing, distribution and sales are occurring. Centralized marketing requires strong communications and solid organizational processes to be successful; otherwise, the lack of communication of company policies and goals will slow marketing to a crawl. It also demands a more uniform approach to everything from messaging to pricing and promotional activities. Decentralized marketing allows for localized, or at least country-specific, decision-making and message modification based on cultural attributes like affluence or literacy. While it facilitates rapid decision-making, it can also lead to a fragmented brand.

> **Aligned Around Products:** Marketing structures aligned around products are focused on the delivery of the products for specific customer groups.

These dedicated cross-functional teams tend to include product-expert vertical teams, such as a cross-functional group including product management, manufacturing facilities, call centers, direct sales teams, and customer service groups, all focusing on a specific product or group of products and a global customer base. This marketing structure is aligned around product expertise and is focused on providing the best product to meet the needs of the most customers. While there is usually a company headquarters and management staff, the group is often multi-national with offices dispersed around the globe.

➢ **Aligned Around Geographic Areas:** In other international marketing structures, teams are organized around geographic areas of the world: North Africa, the Caribbean/South America, Asia, North America, etc. They may all deliver the same group of products, but the team adjusts the product attributes, positioning, pricing and messaging based upon the geographic area of the globe they serve. Marketing expertise is not in the products, but knowledge of the audience to which the products are to be offered. These teams may be cross-functional groups, and may or may not be overseen directly from the company's headquarters. Typically, they revolve around a geographic, regional office.

➢ **Aligned around Processes and Activities:** Another marketing organizational structure is one closely aligned to distribution channels or the company's physical, in-country manufacturing capability. With this structure, marketing is designed to focus on key accounts and global direct sales, or big ticket, multi-million dollar sales with long lead times. This is common in manufacturing and technology industries. Another marketing structure more common in wholesale/retail sales revolves around seasonal product lines. This includes short lead-time distribution and activities with set market schedules, showrooms, and both major and minor accounts. The global fashion industry is an example of this structure.

➢ **Another Approach: On the other hand handled** effectively, a firm's international operations offer considerable opportunities for expansion and growth. In practice, however, the extent to which advantage is taken of these opportunities will depend upon two factors: firstly, the nature and suitability of the marketing strategies pursued, and secondly, the appropriateness of the firm's international organizational structure. For many firms, organizational issues represent a significant challenge which, in practice, is often either only partially recognised or inadequately met. There are several reasons for this, including the frequently under-estimated difficulties of organizing and coordinating operating units of varying size, type and complexity, which are staffed by people of differing abilities in geographically separate markets. In an attempt to come to terms with these difficulties, many international companies in recent years have gone through the process of re-structuring. The range of organizational options open to international companies is, however, extremely broad. There are no 'right' structures as such, although certain structures are likely to involve a better 'fit' with the company's objectives, strategies, and culture than others. The problems of identifying and subsequently implementing this structure are, however, compounded both

by the ways in which the international marketing environment is changing at an ever accelerating pace, and by the conflicting demands of globalism and the pressures of the national governments in the countries in which subsidiaries are located. But just as firms must arrive at strategies to resolve these conflicts, so they must organize operations to take account of the varying interests and lobby groups that exist within their environment. In doing this many companies have, in recent years, opted for substantial and rapid structural change, whilst others have pursued a rather slower evolutionary approach. At the same time, some firms have chosen to emphasize geographical factors in their structure, whilst others have focused upon either product divisions or developed matrix structures that attempt to give equal emphasis to a number of relevant dimensions. Equally, some companies have insisted upon a uniform structure worldwide, whilst others have been quite content to permit variations at a regional or national level.

18.4 KEY DECISIONS IN GLOBAL MARKETING

International marketing decisions are same as domestic marketing; only difference is that all marketing decisions are taken with reference to foreign or international markets (or customers). More clearly, product, price, promotion, and distribution decisions are made for international buyers. Those firms planning to enter the global markets have to decide on following **key decisions:**

1. **International Markets Decision:** Whether to go for international market?

2. **Market Selection Decision:** To whom of which country to sell?

3. **Market Entry Decision:** How to enter the international market?

4. **Marketing Mix Decision:** Which type of marketing mix should a firm prepare?

5. **Organisation Decision:** What type of organisation should a firm adopt to manage international business?

Let's describe in brief these key decisions.

1. **International Markets Decision:** The first few important questions a firm has to answer are should a company go for international market? Why should a company prefer to enter global market? Does Company capable to transact in international markets? Obviously, answers come from company's current domestic market position and types of opportunities available in the foreign markets. When international markets seem to more attractive and the company is capable to exploit these markets, the company decides to enter the international markets. In short, a company prefers to enter the international market in following situations:

    (a) When company's has excess production capacity and there exists attractive opportunities outside, and/or

    (b) When, compared to domestic markets, foreign markets seem more attractive or profitable, and/or

(c) When company has enough capabilities to deal with international markets, and/or

(d) When domestic governments insist, force, and/or encourage businessmen for international markets.

2. **Market Selection Decision:** Once a firm has decided to enter the international market, the next important marketing decision is market selection. As per company's present product mix, production capacity, and proposed expansion strategy, it selects one or more countries to operate in. In the same way, it has to decide on type of foreign buyers to be served. Market segmentation and target market selection are two basic issues in the decision. Initially, a firm targets the most attractive and comparatively easy international markets. Global marketing research can help a company to study international consumer behaviour, segment international market, and select a few most profitable markets. To assess international markets, following criteria may be used:

(a) Present market opportunities

(b) Future market opportunities

(c) Market share

(d) Uncertainties and challenges

(e) Cost-profit estimates

(f) Return on investment

3. **Market Entry Decision:** A firm has selected international markets to operate in. Now, the next imperative marketing decision is market entry, i.e., how to enter the market; which of the options to be used for foreign market entry. There are several options to choose an appropriate entry strategy.

(a) **Exporting:** Exporting involves selling domestic products in foreign markets. It is easier and common entry option. Exporting consists of producing the products in home country and selling or exporting the same in the international market. There are two options in exporting, the first, company itself exports products in foreign markets, and, the second, company exports through intermediate agency or agent.

(b) **Direct Foreign Investment:** A company sets up its own factory in other countries. Its carries out all production and marketing activities in foreign land. But, the option depends on a lot of factors such as market stability, costs of production and marketing, competition, government policies, and other factors determining favourableness of situation. Company should select this strategy carefully as there are considerable risk and uncertainties in some countries.

(c) **Joint Venture:** The joint venture is jointly owned and managed by host and foreign companies, by two companies of two nations. A foreign company holds necessary equity to get voice in management

but not enough to completely dominate the venture. Structure of joint venture depends on government policies and approach of host country. In underdeveloped and developing countries, many multinational corporations are operating as joint ventures. For example, HMT represent joint venture with Swiss Machines and Tools, Proctor and Gamble has joint venture with Godrej, Suzuki of Japan has with Maruti Udyog, etc. At present Indian governments and companies operate with more than 50 countries as joint ventures. When a giant company invests directly in many countries, it is called multinational companies (MNCc). There are several forms of joint venture, such as mixed companies, joint ownership companies, licensed companies, contract manufacturing, management contract, etc.

4. **Marketing Mix Decision:** Marketing mix decision involves preparing marketing mix (strategies) for international market. Marketing mix consists of 4P's product decisions, pricing decisions, promotion decisions, and place or distribution decisions. Marketing mix decisions remain same as domestic market except the target market. Here, all marketing mix decisions are taken with reference to foreign customers and global marketing environment.

5. **Organisation Decision:** Organisation for global marketing is an important decision. In order to implement, direct, and control international marketing efforts, a company must adopt an appropriate organization structure. The organisation is responsible to regulate foreign trade. It is same as domestic marketing organisation; the only difference is that it is prepared to administer international marketing operations and activities. Structure depends on a lot of factors such as type of products, number of countries, type of buyers, etc. Sometimes, it is treated as the department or part of main organisation, for example, foreign trade department. There are different types of organisation structures suit with international marketing such as:

(a) Product-wise Organisation

(b) Country-wise Organisation,

(c) Customer-wise Organisation

(d) Place-wise organisation

(e) Matrix or Mix Organisation, etc.

18.5 SERVICES STRATEGY FOR GLOBAL MARKETING

18.5.1 PROBLEMS FACED BY GLOBAL MARKETING

Global marketing is not as easy as domestic marketing. Global marketing environment poses a number of uncertainties and problems. As against, national

markets, Global markets are more dynamics, uncertain, and challenging. Especially, cultural diversities and political realities in several nations create a plenty of barriers that need special attention. In the same way, geographical constraints cannot be totally undermined. Widespread terrorism has created a new threat to international trade.

Though the world is advancing in terms of information technology, innovative and superior methods of organizing marketing efforts (like horizontal organisation, network organisation, virtual organisation), global efforts for smooth international trades, and so forth, yet Global marketing is not that much easy to pursue, it has become a challenge to accept.

1. **Political Instability or Environment:** Different political systems (democracy or dictatorship), different economics systems (market economy, command economy, and mixed economy), and political instability are some of real challenges that Global markers have to face. Political atmosphere in different courtiers offer opportunities or pose challenges to Global marketers. Governments in different nations have their priorities, philosophies, and approaches to the Global trades. They may adopt restrictive (protectionist) or liberal approach to Global business operations. Especially, political approaches of dominant nations have more influence in Global marketing activities.

2. **Considerable Diversities:** Different countries have their own unique civilization and culture. They pose special problems for Global marketers. Global customers exhibit considerable cultural and social diversities in term of needs, preferences, habits, languages, expectations, buying capacities, buying and consumption patterns, and so forth. Social and personal characteristics of customers of different nationalities are real challenges to understand and incorporate. Compared to local and domestic markets, it is more difficult to understand behaviour of customers of other countries. Language and religious diversities are the real challenge for Global business players. There are 6000 languages in the world. China (20%) is the largest in term of native speakers, followed by English (6%), and followed by Hindi (5%). Yet English is recognized as global business language. English speaking countries can contribute the largest share (40%) in global business. Religious diversities seem difficult to cope with as they determine needs and wants of people. At present Christianity is the largest in the world (1.7 billion), followed by Islam (1.0 billion), followed by Hinduism (750 millions), and followed by Buddhism (350 millions).

3. **Tariff Barriers:** Tariff barriers indicate taxes and duties imposed on imports. Marketers of guest countries find it difficult to earn adequate profits while selling products in the host countries. Sometimes, to prevent foreign products and/or promote domestic products, strategically tariff policies are formulated that restricts international marketing activities. Frequent change in tariff rates and variable tariff rates for various categories of products create uncertainty for traders to trade internationally. Antidumping duties levied on imports and defensive strategies create difficulty for exporters.

4. **Norms and Ethics Challenges:** Ethics refers to moral principles, standards, and norms of conduct governing individual and firm's behaviour. They are deeply reflected in formal laws and regulations. In different parts of the world, different codes of conduct are specified that every global business player has to observe. However, globalization process has emphasized some common ethics worldwide. Corruption is another issue relating to business ethics.

5. **Place Constraints (Diverse Geography):** Trade in foreign countries of far distance itself practically difficult. In case of perishable products, it is a real challenge. Exporting and importing products via sea route and making arrangements for effective selling involves more time as well risks. Segmenting and selecting Global markets require the marketers to be more careful.

6. **Variations in Exchange Rates:** Every nation has its currency that is to be exchanged with currencies of other nations. Currencies are traded every day and rates are subject to change. Indian Rupee, European Dollar, US Dollar, Japanese Yen, etc., are appreciated or discounted at national and global markets against other currencies. In case of extraordinary and unexpected moves (ups and downs) in currency/exchange rates between two courtiers create serious settlement problems.

7. **Administrative Policies:** Bureaucratic rules or administrative procedures – both in guest countries and host countries make global (export and/or import) marketing harder. Some countries have too lengthy formalities that exporters and importers have to clear. Unjust dealings to get the formalities/ matters cleared create many problems to some Global players. Global marketers have to accustom with legal formalities of several courtiers where they wants to operate.

8. **Other Difficulties:** Besides these problems, there are many obstacles in global markets, such as:

    (a) Changing ecological environment and global warming

    (b) Difference in weathers and natural climates

    (c) Inappropriate or inadequate role of global agencies supporting and regulating global trades

    (d) Natural and man-made calamities

    (e) Difference in currencies, weights, standards, measures, and marketing methods

    (f) Protectionist approach of some countries

    (g) Economic crisis across the globe.

18.5.2 SERVICES STRATEGY FOR GLOBAL MARKETING

International business has growth dramatically in recent years because of strategic imperatives and environmental changes. Strategic imperatives include

the need to leverage core competencies, acquire resources, seek new markets, and match the actions of rivals. Although strategic imperatives indicate why firms wish to internationalize their operations, significant changes in the political and technical environment have no doubt facilitated the explosive growth in international business activity that has since World War 2.

Global marketing strategies are actually important parts of a global strategy. In order to create a good global marketing strategy, you must be able to answer: "What I am trying to achieve in an international market?" "What are my company's strengths and weaknesses for that market?" "How can I counter challenges in the market?" "What potential will I have in this market?"

Moreover, a good global marketing strategy incorporates all the countries from all regions of the world and coordinates their marketing efforts accordingly. Of course, this strategy does not always cover all the countries but should be applied for particular regions. For example, you can break down regions like North America, Latin America, Europe and the Middle East, Asia and the Pacific, and Africa.

Beyond its breakdown per country or region, a global marketing strategy almost always consists of several things: (1) uniform brand names; (2) identical packaging; (3) similar products; (4) standardized advertising messages; (5) synchronized pricing; (6) coordinated product launches; and (7) harmonious sales campaigns.

As a whole, there are the several global marketing strategies and reasons for development of services globally:

1. **Create a consistent and strong brand culture.** Creating a strong and consistent brand that always seems familiar to customers is a priority for companies growing internationally. With the ever-more rising and expanding internet, brand structure has become more of a brand culture. To be more specific, it has become more prevalent nowadays that the brand you support reflects your culture. It can be damaging if you compromise your brand culture. For example, Google found out the hard way when it launched a self-censored search engine in China, even though China subjects its new media to government blocks. Google's brand has been known to make the world access information at any time. How can Google set up something in China against its own culture? As a result, customer backlash versus Google was substantial.

2. **Market as if there were no borders.** Due to the proliferation of digital platforms, brands cannot always adopt different strategies per country. In a way, due to the internet, companies have to adopt a marketing approach that is more or less unified.

3. **Saturation of Domestic Markets:** In most of the countries due to continuous production of similar products over the years has led to the saturation of domestic markets. For example in Japan 95% of people have all types of electronic appliances and there is no growth of organization there, as a result they have to look out for new markets overseas.

4. **Opportunities in Foreign Markets:** As domestic markets in some countries have saturated, there are many developing countries where these markets are blooming. Organizations have great opportunities to boost their sales and profits by selling their products in these markets. Also countries that are attaining economic growth are demanding new goods and services at unprecedented levels.

5. **Availability of Low Cost Labor:** When we compare labor cost in developed countries with respect to developing countries they are very high as a result organizations find it cheaper to shift production in these countries. This leads to lower production cost for the organization and increased profits.

6. **Competitive Reasons:** Either to stem the increased presence of foreign companies in their own domestic markets or to counter the expansion of their domestic markets more and more organizations are expanding their operations abroad. International companies are using overseas market entry as a counter measure to increase competition.

7. **Increased Demands:** Consumers in counties that did not have the purchasing power to acquire high-quality products are now purchasing them due to improved economic conditions.

8. **Diversification:** To counter cyclical patterns of business in different parts of the world, most of the companies expand and diversify their business, to attain profitability and uncover new markets. This is one of the reasons why international business is developing at a rapid pace.

9. **Reduction of Trade Barriers:** Most of the developing economics are now relaxing their trade barriers and opening doors to foreign multinationals and allowing their companies to set-up their organizations abroad. This has stimulated cross border trade between countries and opened markets that were previously unavailable for international companies.

10. **Development of communications and Technology:** Over last few years there has been a tremendous development in communication and technology, which has enabled people sitting at their home at one part of the world to know about demands, products and services offered in other part of the world. Adding to this is the reducing cost of transport and improved efficiency has also led to people expanding their business.

11. **Consumer Pressure:** Innovations in transport and communication as led to development of more aware consumer. This has led to consumers demanding new and better goods and services. The pressure has led to companies researching, merging or entering into new zones.

12. **Global Competition:** More companies operate internationally because

    ➤   New products quickly become known globally

    ➤   Companies can produce in different countries

> Domestic companies, competitors, suppliers have becomes international

As international companies venture into foreign markets, these companies will need managers and other personals that understand and are exposed to the concepts and practices that govern international companies. Therefore the study of international business may be essential to work in global environment

18.6 SUMMARY

The prominent visible difference between the domestic and global marketing is market itself the former is confined to one country, whereas the latter is spread across two or more countries. a company usually starts as a domestic company but due to several drivers such as saturating domestic markets, disadvantageous economies of scale, impact of global culture and changing consumer preferences, fierce competition and opening of trade boundaries as well as the fast paced innovations encourage domestic companies to take on to the global markets.

There are several ways for entering into global market such as Exporting, Direct Foreign Investment and Joint ventures etc. once the entry method is establish the companies have to work on the new marketing mix decisions afresh incorporating the new marketing challenges and opportunities. Finally, comes the organisation decision as to how the organisation structure has to be incorporated. Product-wise, Country-wise Organisation, Customer-wise Organisation, Place-wise organisation and Matrix or Mix Organisation, etc are some to the widely used organisation structures commissioned by various international firms. No organisation structure is superior to other as every organisation structure has its own set of merits and demerits Marketers has to choose best suitable to them.

Political Instability or Environment, Considerable Diversities, Tariff Barriers, Norms and Ethics Challenges, Place Constraints (Diverse Geography), Variations in Exchange Rates, Administrative Policies and other challenges are some common problems or challenges faced by many international firms.

Though there are many things that remain the same across different markets yet Global marketing strategies are essential and comprise of several decisions that are planned to take advantage of the expanded market of worldwide scale.

18.7 SELF-ASSESSMENT QUESTIONS

1. Describe the organizing for global marketing.

2. What are the key decisions in global marketing? Discuss it.

3. Explain the problems faced by global competitor in international service marketing.

4. What are the services strategies for global marketing to counter the problems?

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UNIT-19 FINANCIAL SERVICES MARKETING

UNIT FRAMEWORK

19.1 OBJECTIVES

After completing this unit you will be able to:

- ➤ to explain the financial services marketing

- ➤ to know the financial services and consumers

- ➤ to examine the financial institutions and financial products

- ➤ to discuss the management of banking services and mutual fund marketing

19.2 INTRODUCTION

Finance as a term refers to a monetary resources which may be in the form of cash or any securities of financial nature which is essential to execute a financial transaction such as meeting out daily expenses or investment needs. A household or individual need finance to meet out daily expenses, or purchasing durable assets, savings and investments etc. Businesses need finance for investment and covering its regular working capital needs businesses also spend money for promotion and brand building activities. Government raise funds for investment and expenses towards social causes, research, defence and development related activities etc.

The financial system also involves the system of borrowing and lending of funds or the demand for and the supply of funds by individuals, institutions, companies and the government. Generally the financial system is classified into:

1) Industrial Finance- Funds required for the conduct of industry and trade.

2) Agriculture Finance- Funds needed for conduct of agriculture and allied activities.

3) Development Finance- Funds needed for development.

4) Government Finance- It comprises the demand and supply of funds to meet government expenditure.

19.3 FINANCIAL SERVICES MARKETING

Events and relationships are dynamic, continuous and flexible and must be considered as a whole in which many forces interact, a force affecting others and being affected by others. There are generally three key players in the financial service business viz. the lender, the finance company/ bank and the borrower. Lender-Banks/ Finance Company-Burrower:

Basically it functions on the simple principle that the bank/ finance company:

Borrowers at interest rate	a
Levels at interest rate	b
And earns	(a-b)

Furthermore, this simple process in existence for long has assumed various forms and shapes which we could describe as financial product. For example in a bank against a savings account interest rate of, say 6%, the fixed deposit rate could be 11 per cent for a period of one year. However, if this very amount is lent by the bank to a borrower the rate could be anywhere around 17 per cent.

Now this very amount if received by a finance company as a fixed deposit would fetch a higher rate of return to the lender. Correspondingly, the borrower pays a higher rate of interest than 17 per cent.

Banks and Finance companies may also receive money either for themselves or others by way of equity (which is partaking in an investment on a risk/profit sharing basis). Here the return, also known as dividend could range from nothing to abnormally high returns. There have been cases where the dividend rate has been as high as 11 per cent.

From the above, what one can point out is that money is raised broadly in the form of either debt (i.e. money lent at a pre-determined rate of interest) or equity (i.e. money lent provided in an investment scheme where the return is risk-determined).

19.4 FINANCIAL SERVICES AND CONSUMERS

In this business, the consumer can be of two types:

1. Consumer as an Individual for products such as bank deposits, company fixed deposits, units, company shares and debentures, etc. LIC policy, provident fund, consumer durable loan, credit cards etc.

2. Consumer as a Corporate Entity for terms loans from financial institutions, working capital loan from commercial banks, inter-corporate deposits, equity by way of shares/debentures, etc.

The larger the bank or finance company, usually the more difficult it is for them to react to individual needs. Hence a way is to be sought for clustering consumer traits as empathetic as possible. For long the consumer has been defined in terms of social class (upper-middle class, working class etc.), age range and whether they have the money to go in for a financial product.

While one could talk about targeting the 35-55 age group, of middle class who are male and prudent investors with Rs. One lakh plus annual income, it may not be quite an accurate goal to aim at. It is not possible to understand the needs of clientele just on this simple information. Since people within that group could react very differently to investments and other financial purchases, strict adherence to the above segments misses out the consumers' attitudes and his emotional disposition to his purchasing. For instance no prudent investor views gold with any consideration, he runs to the stock market instead. That is a vast change in attitude from just a decade ago.

Regardless of limited funds on hand the Indian consumer today does not mind borrowing. Today, broadly he borrows for:

➢   House Purchase

➢   Vehicle Purchase

➢   Consumer Durable Purchase

➢   Purchase against Credit cards.

The attitude of this new generation shows the change in the mindset which is moving towards cult. We are in the environment of personal expression. Successful brands being the ones which sell themselves by allowing consumer to feel it is their choice e.g. Citibank Diners Club Credit Card, 'The Reward for Success' campaign).

19.5 FINANCIAL INSTITUTIONS

In order to appreciate the range of financial products available to us in the country we shall briefly discuss about their "providers" and how financial services have come to blossoms. Since bank nationalization in July 1969, banking and finance industry constituents have been broadly identified into 7 categories.

1. Nationalized banks such as Syndicate Bank, Bank of India, Canara Bank, Punjab National Bank, etc.

2. Insurance companies such as Life Insurance Corporation of India, General Insurance Corporation, ICICI Prudential Life, HDFC Standard Life Insurance, etc.

3. Unit Trust of India.

4. State Bank of India and its associate banks such as State Bank of Patiala, State Bank of Hyderabad, etc.

5. Private sector banks such as Bank of Madura, Vysya Bank, Federal Bank, etc.

6. Foreign banks such as American Express Bank, ANZ Grindlays Bank, Bank of America, etc.

7. Non-banking finance companies such as First Leasing Sundaram Finance, etc.

Till early eighties, no one in the highly regulated banking / finance industry showed any inclination to innovate or market new financial products; given their respective roles as bankers or finance companies all offered absolutely the same products.

19.6 FINANCIAL PRODUCTS

Product development or innovation of financial products interestingly requires very little or no additional investment. But the downside is that no brand can boast of a Unique Selling Proposition (USP) for long, as it can be copied immediately. Of course, the safeguard to some extent here is the branding of the product.

1. **Savings and Recurring Account:** These are products available only with banks, providing relatively low yield but offer the advantage of instant liquidity.

2. **Current Account:** Again, available only with banks but can be operated only by corporate entities. There is zero-yield from this product. It exists only to facilitate day-to-day company transactions and availing of credit facilities from the bank, if any. It also serves as a reference point to check on creditworthiness.

3. **Fixed Deposits:** This product is made available by banks, finance companies and certain companies. Currently, the status is that the banks offer the lowest yield on deposits. Companies pay more and the highest is offered by finance companies.

4. **Retail Loan Products:** This covers the grant of auto loan, housing loan, consumer durable loan etc. Here making the consumer finance scheme more attractive from the point of its affordability is that sells. Today, possession of a well-known brand of car has a reason to satisfy the status

and recognition needs of the human self thus helping him to reach the fourth step of esteem needs in Maslow's hierarchy. This facility is available both from banks as well as finance companies, the effective rate of interest charged being comparably lower in the case of banks vis-a-vis finance companies.

5. **Commercial Loans:** This could broadly be split into long-term borrowings (beyond a period of one year) and short-term (less than a period of one year) borrowings. Generally long term loans are provided by financial institutions such as Industrial Finance Corporation of India (IFCI), Industrial Development Bank of India. Short-term loans, also known as working capital are made available by all commercial banks. Non-banking finance companies assist corporate entities by arranging bulk amounts as deposits from third party companies, at the rates of interest higher than bank's lending rate and, for shorter periods, say, 90 days and one year, etc.

6. **Leasing and Hire Purchase:** This facility is made available both to individuals and firms, by only finance companies. Both leasing and hire-purchase as a method of financing are essentially a provision of credit to the prospective user who does not have the immediate purchasing power to buy these goods but will have the capacity to make periodic payments for the use of such goods for specific period. There is a difference between the two terms, Leasing can be defined as a method of financing equipment/ vehicles wherein the prospective 'user' known as "lessee" in consideration of making periodic payments is allowed the 'use' of equipment/ vehicle during the period of lease while the legal ownership in the equipment/ vehicle vests in the hand of the finance company, otherwise known as the "lessor".

7. **Credit Cards:** Several banks, both Indian and foreign have moved into the credit card business. Also known as "plastic money", it offers the individual an opportunity to buy rail/air tickets, make purchases from shops, have meals and stay at hotels when they need it. And pay at leisure.

19.7 MANAGEMENT OF BANKING SERVICES

Banking sector has occupied paramount importance in the service sector. Thus the production and planning of banking services should be in accordance to customers' needs and requirements. Basically banks deal with money and credit. The safety of deposited amount, time honoured drawing facilities, service relating to the collection of cheques and bills, accuracy, promptness are a few points, specially to make the services biased to the consumers. The products sold by a bank should result in the highest degree of satisfaction to the consumers or the account holders. While planning for the banking services, the bankers should not forget demographic pressure.

The offering of right products to the right people at the right time and at reasonable prices should be given the topmost priority. Particularly in the banking services, the location of banks should be at the places where a large number of

consumers eventually come, the transpiration services are easily available and the police posts are inside. Of late, we find frequent cases of bank robbery. No doubt, it is a convenience business and so, the selection of bank location carried outstanding significance. The distribution of services also needs our priority attention.

For the optional distribution of the banking services, it is essential that bankers are impaired adequate training. For this, the bankers should have an in-depth knowledge of behavioural management. Up till now, we find untrained staff. The selection and training facilities need revamping, particularly with the motto of making the services consumer oriented. No doubt, the linking of bankers' remuneration with the changing price index would be a suitable device.

In the marketing mix of the banking services, the promotion mix also deserves special attention. In respect of personal selling, the bankers need proper training so that they do a lot for the development of banking business or accretion of deposits. How to impress the customers is an important aspect which would help the bankers particularly while motivating the customers. For this, we realize the importance of personal selling. Not only this, the management of advertising or impersonal communication also needs special care. The bank marketing programmes should be advertised in the leading or reputed journals so that the general masses go through the service offered by the bankers. It would be right to mention that an advertisement in bank marketing is a promise the promise of satisfaction. The banks should also utilize other media of advertisements like TV, cinema, radio and so on. Besides, we also realize the significant contribution of sales promotion devices. The public relation services would be helpful to the bankers. In addition, the provisions for advertising specialties like ball pens, calendars, diaries, note pads, booklets and brochures covering details of banking services would motivate the customers or prospects.

In the marketing mix of the banking services, we also need to divert our attention on the pricing management. In this context, the commission or the rate of interest charged by the bankers need special mention. No doubt, the introduction of modern computerization facilities would maintain economy in the cost of operation. To maintain economy in the cost of operation, the administration cost is required to be minimized. But the curtailment in the administration expenses may result into large scale retrenchment of employees. Hence, it would be reasonable that old employees are imparted modern training facilities. The personal selling or advertising or sales promotion needs a scientific approach.

19.8 MUTUAL FUND MARKETING

There has been a significant expansion of Indian financial sector in terms of scope and content during the last decade. A well-developed financial infrastructure, a number of financial institutions and a variety of financial instruments have been promoted to cater to the needs of growing savings and expanding capital market in India. However the most remarkable development during the 1980s was the entry of Mutual Funds as an important linkage between savings and capital market. The Mutual Funds however are going to face

increasing challenges in the emerging financial market due to the ongoing process of liberalization, deregulation and attempt to globalize Indian financial sector.

TYPES OF MUTUAL FUND SERVICES

Mutual Funds offer the alternative savings revenue with better rate of return linked to stock market movement. The entry of mutual Funds in India in late 1980s was at the time when the stock market was ready for explosive growth.

Though Unit Trust of India was operating in Indian financial market since 1964, it was late 1980s which witnessed the entry of mutual Funds as an alternate to the existing savings media. Public Sector, Commercial banks and financial institutions took the lead in establishing Mutual Funds as Trusts. State Bank of India and Canara Bank set up Mutual Funds in 1987. Life Insurance Corporation and Indian Bank set up their Mutual Funds in 1989 while Punjab National Bank and Bank of India set up their Mutual Funds in 1990. General Insurance Corporation established its Mutual Fund in 1991. Therefore, till November 1992, there were Mutual Funds operating in Indian Financial market. Mutual Fund schemes are broadly classified as given below:

1. **Aggressive Growth Funds:** Funds invested in stocks of fledgling companies/ industries-goal is maximum price rise-current income is very low-safety is very low.

2. **Growth Funds:** Funds invested in stock of settled companies/ industries-goal is high capital appreciation-current income and safety is low.

3. **Growth and Income Funds:** Funds invested in companies with solid track record-goal is price rise and moderate current income-safety is low to moderate.

4. **Fixed Income and Equity Income Funds:** Investment is made in high yielding stocks and bonds-goal is high current income-safety is low to moderate.

5. **General Money Market Funds:** Funds invested in short term debt instruments-goal is moderate to high current income-safety is very high.

6. **Balanced Funds:** Funds invested in a mixture of bonds, preference and common stocks-goal is current income and long term growth-safety is high.

7. **Tax Saving Funds:** Fund invested in permissible stocks/ debentures-goal is tax benefits and growth-current income is moderate and safety is high.

19.9 SUMMARY

Money is raised broadly in the form of either debt (i.e. money lent at a pre-determined rate of interest) or equity (i.e. money lent provided in an investment scheme where the return is risk-determined).

There are numerous financial products available in the market they have different purpose, different customer segments and different cost (interest).

Financial products comprise of money which is raised in the form of debt bearing a fixed rate of interest or deposits with variable rate of return. They also include assurances and guarantees. Some examples of financial products include loans, bonds, commodity assets, real estate, stock and insurance policies. An investor is the source of funds who invests money in expectation of return in future depending upon the perceived risk in an investment the expectations of the investor varies from fixed rate of return to flexible return. this return expectation of the investor or lender constitutes the cost of the financial product for a borrower or customer of the financial product.

There are several institutions as source of funds ranging from an individual to financial institutions like banks, NBFC, governments etc.

The customers of financial products could be an individual or a business. Both the segments of customers have different needs. The non-business product needs include products such as bank deposits, company fixed deposits, units, company shares and debentures, etc. LIC policy, provident fund, consumer durable loan, credit cards etc. whereas the business customers look for terms loans from financial institutions, working capital loan from commercial banks, inter-corporate deposits, equity by way of shares/debentures, etc. Savings and Recurring Account, Current Account, Fixed Deposits, Retail Loan Products, Credit Cards, Commercial Loans, factoring services and Leasing and Hire Purchase services are some of the usual financial products being offered by banks.

Marketers need to create product differentiation to distinguish their products from competitors however, product development or innovations of financial products require very little or no additional investment. But the downside is that no brand can boast of a Unique Selling Proposition (USP) for long, as it can be copied immediately. Strong branding could provide some protection for the marketer of a financial service.

19.10 SELF-ASSESSMENT QUESTIONS

1. What do you understand by marketing of financial services? Briefly explain its different aspects.

2. Define the product range of different financial services? Are these products common in different cases?

3. Describe the financial services and consumers in respect of service and industrial marketing.

4. What do you understand by financial products? Explain it.

5. "Product planning and promotion are the core decisions for the success of any service". Elaborate this statement in the light of marketing of financial services.

6. Describe the financial institutions which provide different financial services.

7. Highlight the similarities and dissimilarities between marketing of banking services and mutual funds.

8. Discuss the management of banking services.

9. What is mutual fund marketing? Explain types of mutual fund services.

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UNIT-20 CASE STUDY ON FINANCIAL SERVICES MARKETING

UNIT FRAMEWORK

20.1 OBJECTIVES

After completing this unit you will be able to:

➢ to explain the case study of financial services marketing

➢ to know the case study – 1: impacts of key trends in Indian telecom industry

➢ to discuss the case study – 2: sahara's loss is passenger's gain

➢ to elaborate case study-3: how dire is India's bad debts problem and what you need to know about it.

20.2 INTRODUCTION

India's financial system includes the many institutions and the mechanism which affects the generation of savings by the community, the mobilization of savings and the effective distribution of the savings among all those who demand the funds for investment purposes. Broadly, therefore the Indian financial system is comprised of:

➢ The banking system, insurance companies, mutual funds, investment funds and other institutions which promote saving among the public, collect their savings and transfer them to the investors.

➤ The investors in the country comprised of individual investors, industrial and trading companies and the government-these enter the financial system as borrowers.

Savings and investment in marketable securities increase supply of funds for entrepreneurs and businesses who employ these funds in profitable ventures for further value creation. As there are several uses of funds; there are several types of financial services available. Among consumer services, the financial services are considered more significant because money plays a vital role in every area. Marketing of financial services is beset with the problem that almost uniform or identical financial products are offered by competing organizations. The success or failure depends upon the attitudes of the customers towards a particular product, service and company. Like a manufacturing of commodity there should be product planning as the financial institutions are regarded the manufacturers and dealers in money and credits.

20.3 CASE STUDY OF FINANCIAL SERVICES MARKETING

Financial services are introduced to be one of the significant business outputs that pose special challenges to market them. Few of them include intangibility, inseparability, limited differentiation, and fiduciary responsibility. Contribution of financial services towards escalation of varied segments of the economy is immense.

Marketing is relatively new to the financial services sector. Marketing in most financial service organizations was largely synonymous with advertising and public relations, and it was not until the 1970s that marketing departments were formed on any scale. Marketing has developed as a more integrated function within financial services organizations, largely as a result of rapid changes in the operating environment. Strategic marketing is not only concerned with providing direction for an organization in terms of products and markets; it also entails the development of a consistent approach to operating in those markets in the form of an integrated marketing mix.

Banks are witnessing fierce competition for resources and quality assets. The need of the hour, therefore, is to build up effective business management systems to meet these emerging challenges. One effective way of meeting these challenges is to offer innovative value-added services. The number of financial intermediaries are poised to increase, generating more competition for business. Some domestic players may opt for a strategic tie-up with banks abroad to have the benefit of global presence, better credit rating and risk management systems. But cutting edge in the service industry like banking industry will be capabilities and competencies to provide superior value to the customers. In this regard, effective marketing of services assumes importance. Today Indian Banking is in its most challenging phase. The increasingly fierce competition in the banking sector has made it imperative for us to develop various marketing strategies to gain competitive edge over others. The urgent need to put intensive marketing efforts is the only rule for survival in today's market place. We have to pursue an aggressive and pro-active marketing approach for achievement of our goals.

20.4 CASE STUDY – 1: IMPACTS OF KEY TRENDS IN INDIAN TELECOM INDUSTRY

Indian telecom industry is going through a phenomenal growth in the past five years. Many trends that shaped the direction of this industry have emerged during this period. This article discusses the key trends in the Indian telecom industry, its driver and the major impact of such trends affecting the operators, vendors and customers.

1. **People go wireless**: Indian customers are embracing the mobile technology in a big way (average four million subscribers are being added every month over the past six months). They prefer wireless service compared to wireline service, which is evident from the fact that while wireless subscriber base has increased 75 percent CAGR from 2001 to 2006, the wireline subscriber base growth rate has been negligible during the same period. In fact, many customers are returning their wireline phones to their service providers. The main drivers for this trend are quick service delivery for mobile connections, affordable pricing plans in the form of pre-paid cards and increased purchasing power among 18 to 40 years age group, prime market for this service. Some of the positive impacts of this trend are as follows: According to a study, 18 percent mobile users are willing to change their handsets every year to newer models with more features, which is good news for the handset vendors. The other impact is that while the operators have only limited options to generate additional revenues through value-added services from wireline service, the mobile operators have numerous options to generate non-voice revenues from their customers. Some examples of value-added services are ringtone download, ring back tone, talking SMS, mobisodes etc. Moreover, there exists great opportunity for content developers to develop applications suitable for mobile users like mobile gaming, location based services etc. On the negative side, there is increased threat of virus, spread through mobile data connections and Bluetooth technology, in the mobile phones making it unusable sometimes. This is good news for anti-virus solution providers who will gain from this trend. Moreover, according to a study conducted by an international organization, prolonged mobile usage could lead to more health related issues, which is bad news for heavy mobile users.

2. **Telecom equipment manufacturing**: The telecom equipment deployed in the Indian telecom network is primarily manufactured in other countries and exported to India. However, there is growing trend of telecom equipment manufacturing in India. Many equipment and handset vendors have either set up their manufacturing facilities or in process of setting up such facilities in India. The main drivers for this trend are availability of low cost & high quality human resources, favorable government policies encouraging investment in telecom manufacturing, and tender norms of telecom operators requiring the vendors to have local manufacturing facilities. Some of the positive impacts of this trend are as follows: Availability of local telecom hardware manufacturing will enable Indian

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companies to transform into new product innovators from being mere software solution developers. Moreover, with manufacturing factories and their supply chain in place in India, telecom equipment will become cheaper compared to being imported from other countries. Also, the operators could enjoy the benefits of quick turnaround time for their telecom equipment repairs because EXIM procedure takes approximately 60 days to get the telecom equipment repaired abroad. Finally, the new telecom manufacturing facilities could lead to more economic development in those cities.

3. **Managed Services:** Usually, telecom service providers operate their network taking care of all activities like managing outside plant wiring and all the way up to total network management, on their own. However, there is a growing trend among the new operators, especially mobile operators, to outsource majority of their network operations to third party service providers. Typically, the complex network management work is outsourced to telecom equipment vendors. The main drivers for this trend are as follows: Since the new operators lack experience to manage their network efficiently, they need expert's help to manage their network. This will help them to focus on their core competencies like marketing the telecom services to their customers. Moreover, in the competitive job environment, the employers find it difficult to manage the churning of their high-skilled manpower that is needed to manage the complex network. The major impacts of this trend are as follows: The outsourcing model will work efficiently when the network is simple or consists of network components from the same vendor. However, when the operator has complex network with the network elements from multiple vendors, end-to-end network management will be very difficult without active participation of operator, which means that the operators have to invest in developing in house skills. The other impact of this trend is although the operator gets predicted operating expenses by outsourcing network operations, sometimes, that may not be the better deal for them compared to doing on their own. This is because when there are limited vendors for the outsourced activity like complex network management, the operators do not have flexibility to get better price from their vendors.

4. **More revenues from copper base:** Another major trend in the telecom industry is that the wire line operators want to extract more revenues out of their huge installed copper base (aproximately 45 million homes are connected by wire) by introducing new services. The operators have deployed ADSL gear to offer broadband connections to the customers. Moreover, many telecom operators have signed deals with major enterprises to interconnect their offices creating VPN through their wireline network. Also, some telecom operators have started offering IPTV service in selected regions through ADSL lines. The major drivers for this trend are eroding revenues from wireline business due to competition from wireless and cable TV operators, technological advances like ADSL2+ and MPEG4-AVC enabling transmission of commercial quality video content at bandwidths supported by ADSL and increased demand of broadband connections with availability of low cost PCs. The

major impact of this trend is the telecom operators have to increase their capex investments on their backbone network in the near future because the current backbone bandwidth is not enough for new services like video content distribution for their IPTV service. Moreover, the increased competition between telecom operators, cable TV operators in broadband access, and video content distribution will drive down the cost of various services benefiting Indian customers. The other positive impact is that the enterprises do not have built and maintain the VPN connecting their office networks through dedicated T1/E1 lines.

The trends in the telecom industry have positive impacts on the operators, vendors and the end customers so far. However, with more technological changes and aggressive competition from other industries like cable TV, new trends having the potential to change the direction of telecom industry in either way could emerge in the future.

Questions

1. Give a detailed analysis of the above trends and their impact on various stakeholders involved.

2. How far the projected trends would be conducive to the new entrants in the sector?

20.5 CASE STUDY – 2: SAHARA'S LOSS IS PASSENGER'S GAIN

In the dynamic world of Indian aviation, failure of the $500-million plan to merge Jet Airways with Air Sahara has introduced a series of new twists and turns. While there are several winners and losers, passengers are emerging as immediate beneficiaries. Air Sahara operating independently means one more player competing for market share while Jet's muscle to influence the market is weaker. Consolidation, in any case, is not known to benefit customers and moves in the other direction should produce better options for passengers. Since lean season is setting in with the monsoon, cheaper fares are flooding the market and the failed deal is acting as a catalyst to benefit passengers. The confusion arising out of the failed deal has also enthused a number of players like Kingfisher, Air Deccan, Indian and Spice Jet in marketing their products.

Air Sahara has also added to the mood by introducing attractive fares on key trunk routes. In any case, the Sahara Group airline had always played a key role in the price-sensitive market by pushing competitive tariffs and incentives. Air Deccan, Kingfisher and SpiceJet are also gaining market share giving Jet a run for its money. Another key factor is the advantage that new airlines are gaining in terms of poaching 'of pilots and engineers from Jet as well as the Sahara. This would help them ramp up operations faster and enhance competition. Some players like IndiGo looking at launch of operations this year also stand to gain since it has become far easier to hire pilots and engineers from the two warring airlines. The situation could change if one of the existing players says Kingfisher, takes over Sahara to gain instant market share. That would lead to limited competition in the full-service segment which now controls 72% market

share. While the low-cost segment would remain unaffected, it will be left to Jet, Indian, Kingfisher and Sahara to fight for market share. That will bring in the consolidation factor which may not be great news for customers while the industry stands to gain.

At this juncture, however, all the key players are losing money and the Centre for Asia Pacific Aviation (CAPA) feels that profits are at least a year away. The industry will lose money till the middle of 2007 and airlines which withstand the turbulence will stand to gain, said KapilKaul, chief executive for CAPA in the Indian sub-continent and West Asia. Industry leaders like Vijay Mallya acknowledge that the going would be tough if oil prices remain high and infrastructure is not beefed up in double quick time. While Capt. G R Gopinath of Air Deccan has been following rapid expansion strategy, other players like SpiceJet have been following a strategy of steady growth to keep losses in check.

The consensus among all players, including JehWadia of GoAir, is that deep pocket is the name of the game and no airline can make profits right from inception. Increase in capacity deployment in the coming months would also play a key role in pushing fares down, says Ankur Bhatia of Amadeus India. There will be more pressure on fares, he added. Industry veterans feel rapid growth in the industry was helping most players to carry on despite high input costs and increasing competition. Most of the growth in the sector was due to the easy availability of cheaper tickets, they feel. Bottom line pressure will continue in the short run, concedes MrGopinath. He feels that mergers help the industry as long as it does not create monopolies, leading to better utilization of available resources. Most low-cost players feel that there would not be any direct fallout on their business due to the Jet-Sahara tussle. As Air Sahara gets aggressive to retain market share and build up customer confidence, there will be price pressure on most players. According to an official of airlines. We are targeting a different customer segment and will continue to do so.

Questions

1. Elaborate on the impact of merger failure on the working of the airlines industry as such.

2. Do you really feel that this merger failure would really be in the benefit of the air travelers?

20.6 CASE STUDY-3: HOW DIRE IS INDIA'S BAD DEBTS PROBLEM AND WHAT YOU NEED TO KNOW ABOUT IT

How dire is the bad debts problem in Indian banks?

In recent months, the news reports about India's bad debts problems have been appearing almost on a daily basis. With the ballooning NPAs or Non-Performing Assets (the term used to refer to debts owed to banks going sour), the Central government is grappling with the problem of these liabilities on the balance sheets of the Indian banks. While the problem affects the public sector banks more, even the privately owned and managed banks such as ICICI have

been reporting a surge in their liabilities.

Indeed, the problem of bad debts in India is so dire that some experts are predicting a liquidity and a recessionary crisis soon for the Indian banking sector unless it cleans up its act. Though the problem of bad debts accruing on the balance sheets is due to the cumulative build up loans going bad taken over the years and especially during the boom years of the last decade, it needs to be mentioned that this continued into the present government's tenure and hence, political partisanship should be avoided. This means that there must be a collective political will to solve the problem rather than to point fingers which does not serve the purpose.

Crony Capitalism and Dubious Loans

Having said that, it also needs to be mentioned that the aspect of Crony Capitalism that is responsible for much of the bad debts problems. For instance, it is common among lenders including the private sector to give in the demands of the politicians and grant loans to dubious borrowers often with poor credit history.

On the other hand, there is a also a nexus between the bankers and the borrowers along with clear indications that lenders very well know in advance that the loans would not be repaid.

In addition, the fact that Indian corporates often borrow more money to repay the debts incurred earlier means that unless there is firmness and resolute will in tackling the problem, it is simply going to be a case of kicking the can down the road.

What the RBI is doing to address the problem?

Indeed, until the RBI or the Reserve Bank of India cracking down hard in recent month, there has been precious little action from the regulators though the previous RBI governor did flag concerns about bad debts. These measures that were mooted in the latter's tenure included fair accounting wherein bad debts and NPAs are not classified as such and instead, reported in a transparent manner.

This is the reason why suddenly there is so much activity and hectic consultations between the government, the regulator, and the lenders as the new provisioning norms have resulted in the NPAs touching nearly 20% of the total assets held by the PSU (Public Sector Undertaking) banks. This is a very dire situation with implications for the broader economy since once bad debts touch this percentage; it almost guaranteed that a full blown banking crisis is round the corner. For some perspective, it is important to note that the European Sovereign Debt crisis and the American Financial Crisis of 2008-2010 were triggered when the levels of bad debts were much lower.

What the Indian government is doing?

While we cannot say that the government has not acted, it could have done so earlier. This is evident from the fact that the bad debts accumulated over the years were simply being rolled over without any resolution and it is only now that the government and the RBI is taking them seriously. On the other hand, the passage of the Bankruptcy and Insolvency Bill means that there is some

movement to tackle the problem wherein defaulters' assets are taken over by the lenders and auctioned to other firms so that some of the monies are recovered.

Moreover, the fact remains that unless there is urgency in such measures, the present state of recovery would not improve as can be seen from the tedious litigation that this process is now stuck in. thus, all stakeholders must come together here and there must be some public pressure as well to prevent a run on the banks.

High Profile Borrowers and Perceptions

Having said that, it must be noted that the High Profile Borrowers and the well-connected among them have found a way to bypass the problem of repayment by simply fleeing the country means that such cases exacerbate the already poor perception among the public about the rich and the powerful getting away while they pay the price.

Indeed, even the Demonetization measure that was implemented is now being seen that way in the light of the fact that most of the Demonetized currency found its way back into the system rather than being "extinguished". To some extent, there is also the fear of triggering a full blown bank run by not putting out alarmist reports, though the numerous news outlets do come up with stories about this problem from time to time.

Conclusion

Lastly, it is our contention that it is no longer an if, but when as far as the banking crisis is concerned and hence, it is our suggestion to you as taxpayers that you need to be prepared for the next round and iteration of the financial crisis. While we do not want to sound alarmist, we have nonetheless presented the facts as they are and have also examined the moves to tackle the problem thereby leaving it you to make informed decisions. To conclude, the bad debts problem in India is indeed dire and hence, is better to be forewarned rather than being caught by surprise.

20.7 SUMMARY

There are several institutions as source of funds ranging from an individual to financial institutions like banks, NBFC, governments etc. Marketers need to create product differentiation to distinguish their products from competitors however, product development or innovations of financial products require very little or no additional investment. But the downside is that no brand can boast of a Unique Selling Proposition (USP) for long, as it can be copied immediately. Strong branding could provide some protection for the marketer of a financial service.

There has been a significant development in the financial sector in India through its series of economic policy reforms, market determined interest and exchange rates, commissioning of agencies governing the stock and money markets etc. With a well-developed financial infrastructure, a number of financial institutions and a variety of financial instruments in place, there has been great synergy between different institutions and individual investors to cater to the

needs of growing savings and expanding capital market in India. Emergence of mutual funds is one such significant development. There are several types of mutual funds available now. They can be classified depending upon their scheme objective, risk appetite, and portfolio composition into several types such as Aggressive Growth Funds, Growth Funds, Growth and Income Funds, Fixed Income and Equity Income Funds, General Money Market Funds, Balanced Funds and Tax Saving Funds etc.

20.8 SELF-ASSESSMENT QUESTIONS

1.   In the first case study; give a detailed analysis of the above trends and their impact on various stakeholders involved.

2.   In the first case study; how far the projected trends would be conducive to the new entrants in the sector?

3.   In the second case study; elaborate on the impact of merger failure on the working of the airlines industry as such.

4.   In the second case study; do you really feel that this merger failure would really be in the benefit of the air travelers?

5.   In the third case study; how dire is the bad debts problem in Indian banks?

6.   Explain crony capitalism and dubious loans.

7.   What the RBI is doing to address the problem?

8.   What the Indian government is doing?

9.   Discuss the high profile borrowers and perceptions.

20.9 TEXT AND REFERENCES

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