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PG DEPARTMENT OF COMMERCE

SUBJECT NAME: MARKETING OF SERVICES

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Marketing of Services

Objective: To provide specialized knowledge on marketing skills for service sector and to expose students to marketing practices in service sector

Unit I Nature and classification of services -Characteristics of services and their marketing implications

Unit II Marketing strategies for service firms -with special reference to information, communication, consultancy, advertising, professional services, after -sales service, recruitment, training and tourism

Unit III Product support services -pricing of services -problems of quality -innovations in services

Unit IV Marketing of financial services -nature- types -marketing of insurance -mutual fund -marketing for non-profit firms.

Unit V CRM & Relationship Marketing -Customer Satisfaction

Book References

- 1 Christopher Lovelock, Services Marketing, 4th Ed, Pearson Education
- 2 EG Bateson, Managing Services Marketing -Text and Readings, Dryden Press, Hinsdale Ill
- 3 Philip Kotler and Paul N Bloom, Marketing Professional Services, Prentice Hall, New Jersey
- 4 Payne, The Essence of Services Marketing, New Delhi, Prentice Hall
- 5 Helen Wood Ruffe, Services Marketing, Macmillan India, New Delhi
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Web references

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LESSON: 1

CONCEPT AND NATURE OF SERVICE

STRUCTURE

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Nature of services
- 1.3 Classification of service
- 1.4 Reasons for growth of services
- 1.5 Role of services in economy
- 1.6 Services in India
- 1.7 Summary
- 1.8 Keywords
- 1.9 Self Assessment Questions
- 1.10 References / Suggested Readings

1.0 OBJECTIVES

After going through this lesson, you will be able:

- To understand the concept, nature and types of services
- To understand the difference between goods and services.
- To understand the role of services in an economy.

1.1 INTRODUCTION

In simple words, services are deeds, processes, and performances. But, the increasing interest in the services sector has been accompanied by considerable disagreement and debate as to what constitutes a service and whether service marketing is a distinctive subject area. In order to develop clarity on service as a concept, it is desirable to look at the way various researchers and scholars have defined it over the years.

One of the first to define services was the American Marketing Association which as early as in 1960 defined services as “activities, benefits, or satisfactions which are offered for sale, or provided in connection with the sale of goods”. This definition took a very limited view of services as it proposed that services are offered only in connection with the sale of goods.

The other definition which was proposed in 1963 by Regan suggested that “services represent either intangible yielding satisfactions directly (transportation, housing etc.), or intangibles yielding satisfactions jointly when purchased either with commodities or other services (credit, delivery, etc.)”. For the first time services were considered as pure intangibles - capable of providing satisfaction to the customer and can be marketed like tangible products.

Robert Judd defined service as “a market transaction by an enterprise or entrepreneur where the object of the market transaction is other than the transfer of ownership of a tangible commodity”.

In 1973 Bessom proposed that “for the consumer, services are activities offered for sale that provide valuable benefits or satisfactions; activities that he cannot perform for himself or that he chooses not to perform for himself”.

Another definition given by Blois in 1974 says that, “a service is an activity offered for sale which yields benefits and satisfactions without leading to a physical change in the form of a good”.

Stanton proposed a definition in 1974 and defined service as “Separately identifiable, intangible activities which provide want satisfaction when marketed to consumers and/or industrial users and which are not necessarily tied to the sale of a product or another service”.

Kotler and Bloom in 1984, defined service as, “any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product”.

Gronroos defined a service as “an activity or series of activities of more or less intangible nature that normally, not necessarily, take place in interactions between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solution to customer problems”.

We may conclude service 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. Customer has a vital role to play in the production process as the services are provided in response to the problems of customers as solution. The production of the service may or may not be closely associated with a physical product”.

1.2 NATURE 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 a 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.

The broad definition of services implies that intangibility is a key determinant of whether an offering is or is not a service. While this is true, it is also true that very few products are purely tangible or purely intangible. Instead, services tend to be more intangible than manufactured products, and manufactured products tend to be more tangible than services.

The tangibility spectrum shown in Table 1.1 captures this idea.

Intangibility presents several marketing challenges. Services cannot be inventoried, and therefore fluctuations in demand are often difficult to manage. It cannot be patented legally, and new service concepts can, therefore, easily be copied by competitors. It cannot be readily displayed or easily communicated to customers, so quality may be difficult for consumers to assess. The actual costs of a 'unit of service' are hard to determine and the price/quality relationship is complex.

(ii) **Inseparability:** In most cases a service cannot be separated from the person or firm providing it. A service is provided by a person who possesses a particular skill (singer, doctor, etc.), by using equipment to handle a tangible product (dry cleaning) or by allowing access to or use of a physical infrastructure (hotel, train, etc.). Services are typically produced and consumed at the same time. The relationship between production and

consumption, therefore, dictates that production and marketing are highly integrated processes. The telephone company produces telephone service while the telephone user consumes it. A plumber has to be physically present to provide the service, the beautician has to be available to perform the massage. The service provider and the client are often physically present when consumption takes place.

Generally, most goods are produced first, then sold and consumed. On the other hand, services are usually sold first and produced and consumed simultaneously. Sasser observed that the firm is unable to store or transport services, that only direct distribution is possible, thereby potentially limiting the number of markets that firm can cover. Apart from the stress laid on 'right place' and 'right time' in case of distributing goods, there is additional importance given to the performance of service in the 'right way' as well. Another outcome of simultaneous production and consumption is that service producers find themselves playing a role as part of the product itself and as an essential ingredient in the service experience for the consumer.

Since services often are produced and consumed at the same time, mass production is difficult if not impossible. The quality of service and customer satisfaction will be highly dependent on actions of employees and the interactions between employees and customers. It is not usually possible to gain significant economies of scale through centralization. Usually operations need to be relatively decentralised so that the service can be delivered directly to the consumer at convenient locations. Since the customer is involved in and observes the production process, and thus may affect (positively or negatively) the outcome of the service transaction.

(iii) **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 encashes 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 computerised 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.

Levitt argues that owing to the industrialisation of services, their production can no longer be viewed as being heterogeneous. Attempts have been made to improve productivity in the service sector by introduction of technology. Uniformity can be achieved by substituting equipment and machinery for labour. Hostage suggested that service firms could also reduce variability by training the service providers in appropriate responses to each customer situation. They can also monitor customer satisfaction through suggestion and complaint system so that poor service can be detected and corrected.

Services are heterogeneous across time, organisations, and people and as a result, it is very difficult to ensure consistent service quality. Quality actually depends on many factors that cannot be fully controlled by the service supplier, such as the ability of the consumer to articulate his or her needs, the ability and willingness of personnel to satisfy those needs, the presence (or absence) of other customers, and the level of demand for the service. Because of these complicating factors, the service manager cannot always know for sure that the service is being delivered in a manner consistent with what was originally planned and promoted.

(iv) **Perishability:** Perishability refers to the fact that services cannot be saved, stored, resold, or returned. Since services are deeds, performances or acts 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.

A primary issue that marketers face in relation to service perishability is the inability to hold inventory. Demand forecasting and creative planning for capacity utilisation are, therefore, important and challenging decision areas. The fact that services cannot typically be returned or resold also implies a need for strong recovery strategies when things do go wrong. Kurtz and Boone observed that the utility of most services is short lived; therefore, they cannot be produced ahead of time and stored for periods of peak demand. The perishability of services is not a problem when demand is steady because it is easy to staff for the service in advance. When there are wide fluctuations in demand there should be a highly flexible production system or idle productive capacity. Sasser has described several strategies for producing a better match between demand and supply in a service business. On the demand side, the firm can make use of differential pricing, cultivating non-peak demand and developing complementary services. On the supply side, for effective matching with demand, the firm may hire part time employees to serve peak demand; peak-time efficiency routines can be introduced, facilities for future expansion can be developed, and increased consumer participation can be encouraged.

(v) **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.

The above cited characteristics of services make it unique and that is why services receive special treatment from marketers. There is general agreement that inherent differences between goods and services exist and that they result in unique, or at least different, management challenges for service businesses and for manufacturers that offer services as a core offering. The difference between goods and services can be best understood from the table 1.1.

Table 1.1
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.

1.3 CLASSIFICATION OF SERVICE

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 standardised product with local ownership and operation of a specific facility.

Researchers have directed much attention to the development of classification systems for services. Such classification schemes help service managers to cross their industry boundaries and gain experience from other service industries which share common problems and have similar characteristics. Solutions to problems and breakthroughs in similar service industries can then be applied by managers to their own service businesses. Ever since marketing researchers started defining services, they also proposed their classification. The first one was proposed as early as 1964 and the last, as late as 1989. Summary of these classifications has been given in table 1.2 and 1.3.

Table 1.2
Summary of Proposed Schemes for Classifying Services (1964-1980)

Author	Proposed Classification	Comment
Judd (1964)	<ol style="list-style-type: none"> 1. Rented goods services (right to own and use a good for a defined time period) 2. Owned goods service (custom repair improvement of goods owned by the customer) 3. Non-goods services (personal, experience or “experiential possession”) 	First two are fairly specific but third category is very broad and ignores services such as insurance, banking, legal advice and accounting.
Zeithmel (1974)	<ol style="list-style-type: none"> 1. Type of seller 2. Type of buyer 3. Buying motives 4. Buying practice 5. Degree of regulation 	No specific application to services could apply equally well to goods
Shostack* (1977)	Proportion of physical goods and intangible services contained	Offers opportunities for multi attribute modelling.
Emphasises Sasser et. al.* (1978)	within each product “package”	that there are few pure goods or pure services.
Hill (1977)	<ol style="list-style-type: none"> 1. Services affecting persons vs. those affecting goods 	Emphasises nature of service benefits and (in 5) variations in

	<ol style="list-style-type: none"> 2. Permanent vs. temporary effects of the service 3. Reversibility vs. non-reversibility of these effects 4. Physical effects vs. mental effects 5. Individual vs. collective services 	the service delivery / consumption environment.
Thomas (1978)	<ol style="list-style-type: none"> 1. Primarily equipment based <ol style="list-style-type: none"> a. automated (e.g., car wash) b. monitored by unskilled operators (e.g., movie theatre) c. operated by skilled personnel (e.g., airline) 	Although operational rather than marketing in orientation, provides a useful way of understanding product attributes.
Chase (1978)	<ol style="list-style-type: none"> Primarily people-based <ol style="list-style-type: none"> a. unskilled labour (e.g., lawn care) b. skilled labour (e.g., repair work) c. professional staff (e.g., lawyers, dentists) 	Recognises that product variability is harder to control in high contact services because customers exert more influence on timing of demand and service features due to their greater involvement in the service process.
Kotler (1980)	<ol style="list-style-type: none"> Extent of customer contact required in service delivery <ol style="list-style-type: none"> a. high contact (e.g., health care, hotels, restaurants) b. low contact (e.g., postal service, wholesaling) 	Synthesizes previous work, recognizes differences in purpose of service organisation.
Lovelock (1980)	<ol style="list-style-type: none"> 1. People based vs. equipment based 2. Extent to which client's presence necessary 3. Meets personal needs vs. business needs 4. Public vs. private, for-profit vs. non-profit 5. Basic demand characteristics <ul style="list-style-type: none"> -object served (persons vs. property) -extent of demand/supply -discrete vs. continuous relationships between customers and providers 6. Service content and benefits <ul style="list-style-type: none"> -extent of physical goods content -extent of personal service content -single services vs. bundle of services -timing and duration of benefits 7. Service delivery procedures <ul style="list-style-type: none"> -multisite vs. single site delivery 	Synthesizes previous classification and adds several new schemes. Proposes several categories within each classification. Concludes that defining object served is most fundamental classification scheme. Suggests that valuable marketing insights would come from combining two or more classification schemes in a matrix.

allocation of capacity (reservations vs. first come, first served)
 -independent vs. collective consumption
 -time defined vs. task defined
 transactions -extent to which customers must be present during service delivery

* These were two independent studies that drew broadly similar conclusions.

Source: Christopher H Lovelock : “Classifying Services to Gain Strategic Marketing Insights”, *Journal of Marketing*, Vol. 47, Summer 1983, pp. 11-12.

Table 1.3

Summary of Proposed Schemes for Classifying Services (1983 -1989)

Author	Proposed Classification	Comment
Lovelock (1983)	<ol style="list-style-type: none"> 1. The nature of the service act <ol style="list-style-type: none"> a. Tangible actions to people or things b. Intangible actions to people or things 2. Relationships with customers <ol style="list-style-type: none"> a. Continuous delivery b. Discrete transactions c. “Membership” relationships d. No formal relationships 3. Customisation and judgement in service delivery <ol style="list-style-type: none"> a. Judgement exercised by customer contact persons b. Customisation of services 4. Nature of demand in relation to supply <ol style="list-style-type: none"> a. Extent to which supply is constrained b. Extent of demand fluctuations 5. Methods of service delivery <ol style="list-style-type: none"> a. single or multi site delivery b. service delivered on provider’s or customer’s premises 	Provides a series of classifications which together illustrate the complete nature of services and provide useful background information for managerial purposes.
Schmenner (1986)	<ol style="list-style-type: none"> 1. Degree of interaction and Customisation <ol style="list-style-type: none"> a. Low b. High 2. Degree of labour <ol style="list-style-type: none"> a. Low b. High 	Recognises that some services may be more customised and involve a higher degree of labour intensity and may help the intensity reader to understand the strategic and tactical options available.

Vandermerwe & Chadwick (1989)	<ol style="list-style-type: none"> 1. Degree of consumer/ producer interaction <ol style="list-style-type: none"> a. Lower b. Higher 2. Relative involvement of goods <ol style="list-style-type: none"> a. "Pure" services b. Services with some goods or delivered through goods c. Services embodied in goods 	Recognises the importance and role of goods components in service business.
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Source: Christian Gronross, Service management and Marketing (Massachusetts : Lexington Books), 1990, pp. 33-34.

These classifications not only demonstrate the diversity of services but also suggest how important it is in a specific situation to carefully analyze the detailed nature of the service operation. The general characteristics of services remain unchanged irrespective of the nature of service business where the customer is always a person or group of persons; the service is perceived more or less intangibly, some kind of interaction between the customer and some parts of the production system of the service provider-including personnel, technology, or both - always

occurs, and some kind of input from the customer is always required in the process.

The classifications do not suggest that a specific service is so unique that the basic fundamentals of managing services do not apply to them. However, they do lay emphasis on various aspects of service operation, types of resources to be used and how to manage the process depending on the nature of service and the interface with the customers.

1.4 REASONS FOR GROWTH OF SERVICES

Manufacturing industries grew because they produced tangible goods which satisfied man's physiological needs of food, shelter and clothing. As the basic need was fulfilled there was demand for improved satisfaction, and this led to a proliferation of variations of the same product and a number of companies involved in its manufacture. The growth of service industries can be traced to the economic development of society and the socio-cultural changes that have accompanied it. Changing environmental forces brought out the

various types of services in forefront of the economy. These environmental forces separately or in combination create new type of service. The following environmental factors are responsible to make a new service.

(i) Consumer affluence: Due to the fast rise in the income of consumers, they are attracted towards the new areas like clubs, health clubs, domestic services, travel and tourism, entertainment, banking, investment, retailing, insurance, repairs, etc. and these are growing much faster than ever before. There is a significant change in the pattern of family expenditure.

(ii) Working women: During the recent times a large number of women have come up in a variety of professions. The work performance of women in most of services sector like bank, insurance, airlines, etc. is highly appreciable. In short, women are getting involved in almost all male dominated activities. Due to increasing involvement of women in commercial activities, the services like domestic activities, fast food restaurants, marriage counselling, personal care, financial services, retailing, etc. have emerged in the recent times.

(iii) Double income no kids (DINK): Dinks are the working couples who have consciously postponed parenthood plans indefinitely or in an increasing number of cases, have decided not to have any children ever. The dink culture is getting stronger and spreading wider day by day. The realisation that parenthood is likely to result in more commitments at home and demands on their time, thereby slowing down their career plans and ambitions, make them postpone their parenthood plans. Whatsoever be their life style, they have double income and no kids, resulting in the emerging and enhancing of services like, entertainment, hotels and restaurants, career institutes, domestic services, travel resorts, personal care, etc.

(iv) Leisure time: People do get some time to travel and holiday, and therefore, there is a need for travel agencies, resorts, hotels and entertainment. There are others who would like to utilise this time to improve their career prospects, and therefore, there is a need for adult education, distance learning, part time courses, etc.

(v) **Greater life expectancy:** According to the World Development Report and World Human Resource Index, the life expectancy of people has increased significantly all over the world barring few developing countries. It may be due to the advancement in the medical technology, and greater awareness about health and education. Greater life expectancy invites opportunities in services like hospitals, Nursing Homes, entertainment, leisure services, investment banking and so on.

(vi) **Product innovations:** In the changing time the consumers have become more conscious of quality than cost. They need high quality goods at par with international standards. Having this in mind the manufacturers have focused their attention on quality improvement, innovations, etc. In this process many more services have emerged on account of product innovation. Some of them are servicing services, repairs, computer, training and development, education, etc.

(vii) **Product complexity:** A large number of products are now being purchased in households which can be serviced only by specialised persons e.g. water purifiers, microwave oven, computers, etc., giving rise to the need for services. The growing product complexities create greater demand for skilled specialists to provide maintenance for these complex products and brings out other services like expert advise, consultancy services, etc.

(viii) **Complexity of life:** Certain product and services have made human life more comfortable and complex as well. Also, life itself has become more complex due to the socio-economic, psycho-political, technological and legal change. This has brought about the emergence of services like legal aid, tax consulting, professional services, airlines, courier services, insurance, banking, etc.

(ix) **New young youth:** Every new generation has its own characteristics and enjoys a different life style. There is a lot of difference between the generations in respect to their living conditions/ styles, maturity, thinking, attitudes, behaviour, beliefs, satisfactions, performance values and so on. Today's generation with all these changes provide more opportunities to services like entertainment, fast food, computers, travel, picnic resorts, educational institution, counselling, retailing, etc.

(x) *Resource scarcity and ecology:* As the natural resources are depleting and need for conservation is increasing, we have seen the coming up of service providers like pollution control agencies, car pools, water management, etc.

(xi) *Corporate crowd:* The phenomena of globalisation, privatisation and liberalisation coupled with faster urbanization have created the corporate world crowd and its support services. This crowd is responsible in bringing the new services, and redefining the old ones. The services like hotels and restaurants, banking, insurance, travel and tourism, advertising, airlines, courier services, marketing research, health care, legal services, etc. will emerge and flourish more and more.

1.5 ROLE OF SERVICES IN ECONOMY

There is a growing market for services and increasing dominance of services in economies worldwide. Services are a dominant force in countries around the world as can be seen in the global feature. The tremendous growth and economic contributions of the service sector have drawn increasing attention to the issues and problems of service sector industries. There was a time when it was believed that the industrial revolution was the only solution to the problems of poverty, unemployment and other ills of society⁴⁶. Now, however, the service sector promises to fulfil the task. Services touch the lives of every person every day whether it is in the field of food services, communication, leisure services, maintenance services, travel, amusement parks, to name only a few. Services are increasingly being used by the corporate as well as the household sector. This emphasis on services and its increasing use has not happened overnight - it started in the twentieth century especially after the end of World War II. Due to large scale destruction during the war, a lot of economic activities had to be carried out to bring the war torn economies back on road. World War II marked as milestone in the explosive rise of service industries. Throughout the second half of the twentieth century services industries have attained considerable growth in most western nations. After Green Revolution and Industrial revolution, the next possible popular revolution will be in the field of service sector. In Green revolution the man learnt to use, exploit and interact with nature (i.e., land and natural resources). In Industrial revolution man learnt to use, exploit and interact with

equipments and machines for development. In case of services, man is learning to use, exploit and interact with other man-made resources for development.

In the present day world the service sector is growing at a phenomenal rate and termed as 'sunrise sector of the economy'. Table 1.4 depicts the share of services in GDP as compared with agriculture and industry dividing the world in three groups; low income, middle income and high income.

Table 1.4 Share of Service Sector in GDP

(in percentage)

Group of Countries	Major Sector Players			Total
	Agriculture	Industry	Services	
Low Income	25	39	36	100
Middle Income	12	36	52	100
High Income	02	32	66	100
World Total	05	32	63	100

Source: World Bank, World Development Report 1997.

There is another report mentioned in Table 1.5 which clearly indicates the increasing trend of services in GDP in most of the cases among the Asian Nations.

Table 1.5

Share of services in GDP among the Asian Nations
during 1980, 1991 & 1996.

(in percentage)

Countries	Years		
	1980	1991	1996
China	23	32	28
Indonesia	34	39	42
Thailand	50	49	47
Malaysia	41	41	41
South Korea	48	47	50

Hong Kong	67	75	85
Singapore	60	62	63
India	36	41	42

Source : Asian Development Outlook 1997-1998.

Today service industries are the source of economic leadership. Many developed countries are now termed as service economy. Table 1.6 depicts the percentages of Gross Domestic Product by industry of origin for some selected countries representing both developed and developing economies for 1999.

Table 1.6
GDP by Industry of Origin in 1999

Country	(in percentage)		
	Agriculture	Industry	Services
USA	2	26	72
UK (1998)	2	31	67
France	2	26	72
Mexico	5	27	68
Republic of Korea (1998)	6	43	51
Brazil	9	29	62
China	17	50	33
Indonesia	20	45	35
India	28	25	46

Source: World Bank, World Development Report 1999/2000, Table 12, pp. 252-3 and World Development Report 2000/2001, Table 12, pp. 296-7.

Raising the standard of living of people through services; service sector may well symbolise the third and possibly the most important revolution of recent times. The standard of living of people will not increase only through capital formation, economic transformation and national income, indeed it is also important that masses are aware of the

living style and behaviour. Service sector creates and expands job opportunities. The new and indeed, the biggest employment opportunities are offered by service industries. In service sector each job created in allied sectors leads to three jobs in subsidiary sectors.

Table 1.7 indicates the increasing trend of employment in service jobs.

Table 1.7
Percentage of Employment in Service Jobs

(in percentage)

Countries	Year		
	1980	1991	1996
USA	67.1	71.0	80.0
Canada	67.2	70.8	73.8
Belgium	64.3	70.1	73.3
Australia	64.7	69.7	73.3
UK	60.4	67.7	70.0
Israel	63.3	66.0	69.3
France	56.9	63.6	65.7
Finland	52.2	60.1	64.7
Japan	54.5	58.1	60.3
Italy	48.7	57.7	60.1
India	20.2	22.4	37.6

Source: Statistical Year Book, Department of International Economic and Social Affairs, Statistical Office, United Nations, New York.

Looking at the trend of growth of service sector it may be concluded that future belongs to services.

1.6 SERVICES IN INDIA

Services lie at the very hub of economic activity in any society. Our welfare and the welfare of our economy are now based on services. Almost all countries of globe look interested in utilising this sector of the economy. For the developing countries like India, the need of the hour is to assign due weightage to the development of service sector. The service sector is assuming increasing importance in the Indian economy.

In the recent past, we have seen the transition from agrarian nature of economy to agro-based industry to industrial growth, now we tend to think in terms of developing the service sector. Probably it is because this sector can create more jobs at a low cost. Service sector has significant contribution for income generation and employment creations. In India, service sector is one of the fastest growing sectors today. It provides more than 55 per cent of the jobs and about 40 per cent export is from service sector. The service sector dominates the Indian economy today, contributing more than half of our national income. According to National Accounts Statistics and RBI in 1999-2000 the share of Agriculture, industry and services in GDP are 25.5, 22.1 and 52.4 per cent respectively. Table 1.8 shows the distribution of GDP in primary, secondary and tertiary i.e., service sector over the years.

Table 1.8
Distribution of Gross Domestic Product at Factor cost Percentage Distribution
(At 1980-81 Prices)

Sector	1950-51	1970-71	1990-91	1996-97	1998-99*
A. Primary Sector	56.4	45.8	33.4	27.8	29.1
1. Agriculture	48.6	39.7	29.5	24.0	
2. Forestry	6.0	4.0	1.4		
3. Fishing	0.7	0.8	0.8	2.1	
4. Mining & Quarrying	1.1	1.3	1.7	1.7	

B. Secondary Sector	15.0	22.3	27.0	29.3	24.7
5. Manufacturing	11.4	16.1	20.6	22.5	
6. Construction	3.3	5.0	4.1	4.3	
7. Electricity, Gas & Water Supply	0.3	1.2	2.3	2.5	
C. Tertiary Sector	28.5	31.8	39.6	42.7	46.2
8. Trade, Transport etc.	11.0	14.2	18.1	20.2	21.3
9. Finance & Real Estate	9.0	8.0	10.3	12.2	12.1
10. Community and Personal services	8.5	9.2	11.2	10.4	12.8
Total : Gross domestic Product (A+B+C)	100.0	100.0	100.0	100.0	100.0

**At 1993-94 prices. Source: Compiled from National Accounts Statistics, 1990 and New series on National Account Statistics (1980-81 to 1985-86) Feb. 1988 and C.S.O., Quick Estimates (1998); CMIE, Basic Statistics relating to the Indian Economy, Vol. I : All India, August, 1992 and also from Economic Survey, 1997-98, 1999-2000.*

It is evident from the Table 1.8 that service sector which is constituted by trade, transport, storage, communication, banking, insurance, real estate, community and personal services, etc. has gradually increased from 28.5 per cent in 1950-51 to 31.8 per cent in 1970-71 and 46.2 per cent in 1998-99.

An India Today-ORG-MARG poll showed that a majority of middle class families want their children to work in the service sector. With best jobs, best incomes and best talents, the service sector is now the show case of the Indian Economy.

No wonder the service sector will be the biggest driver of new economic growth and profit earning in the new millennium for the world in general as well as for India in particular. As a result, the service organisations, if they have to be successful, have to have a more

professional approach to manage their business. Perhaps, it is in this context the role of marketing is gaining importance in the service organisations.

1.7 SUMMARY

It is now obvious that most economies, the world over, are increasingly becoming service economies and, therefore, there is a need to manage services in the best possible way.

Services are activities which are intangible in nature, therefore, standardization is one of the major issues in services. Also, services are typically delivered by employees of the service providers, therefore, there is also a need to manage the human resources. In addition, unlike in the manufacturing sector where production, distribution and consumption are separate activities, in service sector these three are simultaneous processes. In fact services are so varied and diverse that one needs to classify them to identify selected areas which need to be managed strategically.

1.8 KEYWORDS

Service: 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.

Intangibility: As 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.

Inseparability: A service cannot be separated from the person or firm providing it.

Heterogeneity: Since most of the services are being rendered by human beings, their performances can not be mechanized and as a result no two performances of even a single service provider are identical.

Perishability: Services if not consumed simply perish away.

1.9 SELF ASSESSMENT QUESTIONS

1. What do you mean by services? How do services differ from products?
2. Do you think that classification of services helps in developing the marketing strategy better? How?
3. Discuss the important characteristics of services with suitable examples. Also discuss what challenges they pose before service marketers.
4. Discuss the reasons of growth of service sector.
5. Write a detailed note on role of service sector in economy.

1.9 REFERENCES / SUGGESTED READINGS

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LESSON: 2

MARKETING MIX FOR SERVICES

Subject: Marketing of Service

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Paper Code: MM-411

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STRUCTURE

- 2.0 Objectives
- 2.1 Introduction
- 2.2 Product
- 2.3 Price
- 2.4 Place
- 2.5 Promotion

- 2.6 People
- 2.7 Physical evidence
- 2.8 Process
- 2.9 Summary
- 2.10 Keywords
- 2.11. Self Assessment Questions
- 2.12. References / Suggested Readings

2.0 OBJECTIVES

After going through this lesson, you will be able:

- To explain traditional marketing mix comprising of product, price, place and promotion as applied to service organizations.
- To discuss the extended marketing mix which incorporates traditional marketing mix as well as three more 3 Ps namely people, process and physical evidence.

2.1 INTRODUCTION

Marketing mix is the set of important internal elements that make up an organisation's marketing programme. The marketing mix concept is a well established tool used as a structure by marketers. It can be defined as the elements an organisation controls that can be used to satisfy or communicate with customers. The phrase 'marketing mix' was first used by Neil H. Borden. The concept had its genesis in the classic work of James Culliton on the management of marketing costs. Borden suggested twelve marketing mix variables in the context of manufacturers. Borden's concept of marketing mix was given due recognition in marketing theory and the concept of marketing mix was accepted as the set of marketing tools that a firm uses to pursue its marketing objectives in the target market, influenced by specific environmental variables.

It was McCarthy who summed up the twelve elements of Borden's marketing mix into 4Ps - product, price, place (i.e. distribution), and promotion. He even clarified that the customer is not a part of the marketing mix, rather, he should be the target of all marketing efforts. The activities in service marketing are different, and often do not fall in the conventional marketing mix (4Ps) classification, though many marketing concepts and tools used by

goods marketers hold good in services with some change in focus and importance. The traditional marketing mix became inadequate for service industries because of the following reasons:

- The concept of marketing mix as such was developed for manufacturing industries and was more oriented to deal with goods marketing situations.
- Marketing practitioners in service sector found that it did not address their needs.
- Due to differences in characteristics of physical products and services, marketing models and concepts had to be developed in direction of the service sector.

Keeping in view the inadequacy of conventional marketing mix to address the service situations, it needs to be modified and broadened. A seven Ps framework for services has been proposed. These elements of marketing mix for services are product, price, place, promotion, people, physical evidence and process. It is important to elaborate these Ps in order to have an understanding of a specific combination of these elements to arrive at the marketing strategy for service firms. A detailed account of each of these elements of marketing mix is as follows:

2.2 PRODUCT

A product is an overall concept of objects or processes which provide some value to customer; goods and services are subcategories which describe two types of product. Thus, the term product is frequently used in a broad sense to denote either a manufactured good or a service. In fact, customers are not buying goods or services - they are really buying specific benefits and value from the total offering. So, the most important issue in service product is what benefits and satisfaction the consumer is seeking from the service. From the point of view of a restaurant's manager, the restaurant simply provides food. But, the customers coming to the restaurant may be seeking an 'outing' - an atmosphere different from home, relaxation, entertainment or even status. The marketing of services can be a success only if there is a match between the service product from the customer's view point and the supplier's view point. To find this match it is desirable to analyse the service at the following levels:

(i)

(ii) **Customer benefit concept:** The service product which is offered in the market must have its origin in the benefits which the customers are seeking. But, the problem is that customers themselves may not have a clear idea of what they are seeking, or they may find it difficult to express or it may be a combination of several benefits and not a single one. Over a period of time, the benefits sought may also change. This change in customer may come about by a satisfactory or unhappy experience in utilising the service, through increased sophistication in service use and consumption, and changing expectations. All these make the issue of marketing a service product more complex.

(iii) **Service concept:** Using the customer benefits as starting point, the service concept defines the specific benefits which the service offers. At the generic level, the service concept refers to the basic service which is being offered. A centre for performing arts may offer entertainment and recreation. But, within this broad framework, there can be specific choice paths for satisfying the entertainment objectives, such as, drama, musical concerts, mime, poetry recitation, dance, etc. Defining the service concept helps in answering fundamental question - 'what business are we in?'

(iv) **Service offer:** After defining the business in which we are operating, the next step is to give a specific shape and form to the basic service concept. In the case of centre for the performing arts, the service concept is to provide entertainment. The service offer is concerned with the specific elements that will be used to provide entertainment; drama, music, mime, dance. In the category of musical concerts the choice may be vocal or instrumental, with vocal whether light or classical, Hindustani, Carnatic or Western. While these represent the intangible items of the service offer, the physical infrastructure of the centre, in terms of its seating capacity, seating comfort, quality and acoustics, provision for air-conditioning, snack bar and toilets are the tangible items. The tangible aspects can be controlled by offering the best possible benefit, but the quality and performance of the actors, singers, musicians cannot be controlled.

(v) **Service forms:** In what form should the services be made available to the customers is another area of decision making. Should all the shows of the centre be available in a package deal against an annual membership fee or seasonal ticket? Should there be daily

tickets with the consumer having the freedom to watch any one or more performances being staged on that particular day? Should each performance have a separate entrance ticket, with a higher priced ticket for a well-known performer? Service form refers to the various options relating to each service element. The manner in which they are combined gives shape to the service form.

(vi) **Service delivery system:** When we go to bank to withdraw money, we either use a cheque or a withdrawal slip in which we fill all the particulars and hand it over to the dealing assistant, who after verifying the details, gives us money. The cheque or withdrawal slip and the dealing assistant constitute the delivery system. In case of airlines, the aeroplane, pilot, crew members, airport, etc. are the elements of delivery system. The two main elements in a delivery system are the people and the physical evidence. The competence and public relations ability of a lawyer represents the 'people' component, while his office building, office door, letter head, etc., are all elements of the 'physical evidence' component. The physical evidence components have also been called facilitating goods or support goods. These are the tangible elements of the service and they exert an important influence on the quality of the service as perceived by the consumers. Delivering an intangible at a level consistently is a complex issue. The experience in two flights of the same airline is not the same. The visit to a bank on two occasions brings different experiences. The consumer's service experience is, as such, a result of provider-customer interaction, atmosphere, emotional stress, anxieties, surprises, etc. It is because of these delivery factors (varying at different points of time) that no two customer experiences are identical. This variability of experience is attributable to the inability of the service firms to deliver the intangible uniformly.

Service firms must learn to manage intangibles. They need to go beyond the technical skills of employees or the tangible output. Service levels should be set in accordance with the desired customer satisfaction. The answer to 'what customer expects' should be sought. And it is not an easy answer because the subjective nature of the customer expectations often vitiates the whole exercise.

2.3 PRICE

Pricing is one factor that has received much less attention in service firms. Pricing

decisions in services are approached in a not-very-sophisticated manner. The role price plays in the marketing strategy is lesser known in service firms than in manufacturing firms. Even in Britain, the United States and some other developed economies where more people are employed in the provision of services than in the direct production of material goods, the marketing of services in general, and their pricing in particular, are relatively neglected aspects of management studies.

Though price is one of the Ps in the marketing mix of firms, its use as a purposive marketing tool has been limited to a few marketers. Most marketers tend to adopt a passive approach and commit many mistakes in pricing their goods and services. “The most common mistakes are these: pricing is too cost-oriented; price is not revised often enough to capitalize on market changes; price is set independent of the rest of marketing mix rather than as an intrinsic element of market positioning strategy, and price is not varied enough for different product items and market segments”.

Unlike in manufactured goods, where price has one common name across a wide range of goods, such as, fruits, clothes, computers, cars, etc.; price in services goes by different names. The services are diverse. The extent of their diversity can be gauged by the names by which the price is called in services. In table 2.1, some terms referring to price in different services are listed.

Almost every service has its own price terminology.

Table 2.1

Price Terminology for Selected Services

Service	Terminology
Advertising	Commission
Brokerage service	Commission
Consultancy	Fee
Employee Services	Salary
Education	Tuition fee
Financial Services	Interest/charge/commission

Guest speaker	Honorarium
Health care	Fee
Insurance	Premium
Legal service	Fee
Property/Accommodation	Rent
Road use	Toll
Recreational service	Ticket charge/money, Admission charge
Share/Stock service	Brokerage/Commission
Transport	Fare
Utilities	Tariff

Source : Donald Cowell, "The Marketing of Services", Heinemann, London.

Pricing is important because it has a direct bearing on sales and profits of an organisation. Therefore, price cannot be determined in isolation without keeping in mind the sales it would generate and the profit it would earn. Generally, a trade-off is observed between the sales and the profit. A lower price of product or service is capable of generating higher sales at low profit per unit. Similarly, a high price would result in greater profit margins but the product or service may not sell that much. Pricing arithmetic is not simple. There are a number of factors that influence the pricing decisions of a firm. It is important for a firm to consider the customers, the marketing offer, competition, legal framework, and social and technological environment while setting the price.

Pricing methods and practices tend to vary widely in service industries. Unlike goods which may bear similarities in processes, competition, output, raw material, labour, etc.; service industries are laden with diversity. On the spectrum of variety and uniqueness; services are unique, both in their own character and in their difference from one another. This service character does not allow standardisation of pricing across various service categories. A household service supplier, banking company, hairdresser, transporter, etc.; because of their unique character, tend to consider their pricing in a variety of ways.

In determining the prices of services, the one characteristic which has great impact is their perishability and the fact that fluctuations in demand cannot be met through inventory. Hotels and airlines offering lower rates in off-season and lower telephone charges for outstation calls after peak hours are examples of how pricing strategy can be used to offset the perishable characteristics of services.

Another characteristic of services that creates a problem in price determination is the high content of the intangible component. The higher the intangibility, the more difficult it is to calculate cost and greater the tendency towards non-uniform services, such as fees of doctors, management consultants, lawyers, etc. In such cases, the price may sometimes be settled through negotiation between the buyer and seller.

On the other hand, in services such as dry cleaning, the tangible component is higher, and the service provided is homogeneous. It is easier to calculate the cost on a unit basis and have a uniform pricing policy. In general, the more unique a service is, the greater the freedom to fix the price at any level. Often the price may be fixed according to the customer's ability to pay. In such cases price may be used as an indicator of quality.

The third characteristic to be kept in mind while determining prices is that in many services, the prices are subject to regulations, either by the government or by trade associations. Bank charges, electricity and water rates, fare for rail and air transport in India are controlled by the government. In many other cases, the trade or industry association may regulate prices in order to avoid undercutting and maintain quality standards. International air fares are regulated by international agreement of airlines, sea freight fares are regulated by shipping conferences. In all such cases, the producer has no freedom to determine his own price.

The two methods which a service organisation may use to determine prices are cost-based pricing and market-oriented pricing. In the former, the price may be regulated by the

government or industry association on the basis of the cost incurred by the most efficient unit. Such a pricing strategy is effective in restricting entry and aiming at minimum profit targets. The market-oriented pricing may either be a result of the competition or customer-oriented. In case of competition-oriented pricing, the price may be fixed at the level which the competitor is charging, or fixed lower to increase market share. Customer-oriented pricing varies according to the customer's ability to pay.

The pricing tactics that may be used to sell services are:

(i) **Differential or Flexible Pricing:** It is used to reduce the 'perishability' characteristic of services and iron out the fluctuations in demand. Differential price implies changing different prices according to:

- customer's ability to pay differentials (as in professional services of management consultants, lawyers);
- price time differentials (used in hotels, airlines, telephones where there is the concept of season and off-season and peak hours); and
- place differential used in rent of property-theatre seat pricing (balcony tickets are more expensive than front row seats) and houses in better located colonies command higher rent.

(ii) **Discount Pricing:** It refers to the practice of offering a commission or discount to intermediates such as advertising agencies, stock brokers, property dealers for rendering a service. It may also be used as a promotional device to encourage use during low-demand time slots or to encourage customers to try a new service (such as an introductory discount).

(iii) **Diversionsary Pricing:** It refers to a low price which is quoted for a basic service to attract customers. A restaurant may offer a basic meal at a low price but one which includes no soft drink or sweet dish. Once the customer is attracted because of the initial low price he may be tempted to buy a drink or an ice-cream or an additional dish. Thus, he may end up buying more than just the basic meal.

(iv) **Guaranteed Pricing:** It refers to pricing strategy in which payment is to be made only after the results are achieved. Employment agencies charge their fee only when a person actually gets a job, a property dealer charges his commission only after the deal is actually transacted.

(v) **High Price Maintenance Pricing:** This strategy is used when the high price is associated with the quality of the service. Many doctors, lawyers and other professionals follow this pricing strategy.

(vi) **Introductory Pricing:** It is one in which an initial low price is charged in the hope of getting more business at subsequently better prices. The danger is that the initial low price may become the price for all times to come.

(vii) **Offset Pricing:** It is quite similar to diversionary pricing in which a basic low price is quoted but the extra services are rather highly priced. A gynaecologist may charge a low fee for the nine months of pregnancy through which she regularly checks her patient, but may charge extra for performing the actual delivery and post-delivery visits.

(viii) **Competitive parity pricing:** Prices are set on the basis of following those set by the market leader.

(ix) **Value based pricing:** Prices are based on the service's perceived value to a given customer segment. This is a market driven approach which reinforces the positioning of the service and the benefits the customer receives from the service.

(x) **Relationship Pricing:** Prices are based on considerations of future potential profit streams over the lifetime of customers. Relationship pricing follows closely the market oriented approach of value-based pricing but takes the lifetime value of the customer into account.

2.4 PLACE

In order to bring the products to the customer, the marketer has to work with distribution channels that are the interdependent set of organisations involved in the process of making the goods or services available. Service marketers, like goods marketers, also have to handle distribution channel problems. They too, have to make their services available to target customers without which marketing cannot take place. Because of intangibility of

services, they cannot be stored, transported and inventoried. Similarly, because of inseparability, that is, in case of services production cannot be separated from selling, services must be created and sold at the same time. These characteristics of services make distribution strategy more complex and difficult.

There are three critical issues that must be sorted out while evolving the distribution channels for a service:

(i) Location of the service: Location is concerned with the decisions a firm makes about where its operations and staff are situated. The importance of location for a service depends upon the type and degree of interaction involved. When the customer has to go to the service provider, location becomes very important. For a service business such as a restaurant, location may be one of the main reasons for patronage. In this type of interaction, service providers seeking growth can consider offering their services at more than one location. Where the service provider can go to the customer, site location becomes much less important provided it is sufficiently close to the customers for good quality service to be received. In some circumstances, the service provider has no discretion in going to customer as certain services must be provided at the customer's premises. This is the case with a wide range of maintenance services such as, lift repair, cleaning services etc. However, when the customer and service organisation transact at arm's length location may be largely irrelevant. Customers are not concerned with where the physical locations are of suppliers of services such as electricity, telephone or insurance. There are three important questions that would help service provider in deciding where to locate service:

- How important is the location of the service to the customers?
- Is the service, technology - based or people-based?
- How important are complementary services to the location decision?

The selection of location and site for a service depends on a number of factors and trade offs among benefits and costs. The table 2.2 depicts the critical factors affecting the location decisions, vary from one service to another.

Table 2.2
Critical factors affecting choice of location

Critical factor	Services
Convenience	Retail stores, health centres, banks, repair services, theatres, personal care.
Cost operating	Speciality shops, wholesalers, clerical services.
Proximity with competition to share	Furniture, fast food, antique shops, tailors, designers.
Support system availability	Hotels, jewellers, tourism.
Geographic of environmental factors	Beach resorts, Ski resorts
Business climate	Insurance companies, private educational institutions, gambling resorts.
Communication networks	Banks, financial services.
Transport facilities	Mail order houses, couriers, ware houses.

Source : Harsh V. Verma, "Marketing of Services", (Delhi; Global Business Press), 1993, p. 62.

(ii) Channels through which services are provided: The second decision variable in the distribution strategy is whether to sell directly to the customers or through intermediaries. Traditionally it has been argued that direct sales are the most appropriate form of distribution for services. Whilst this form of distribution is common in some service sectors, e.g., professional services, companies in other areas of the service sector are increasingly seeking other channels to achieve improved growth and to fill unused capacity.

Many services are now being delivered by intermediaries and these can take a variety of forms. The broad channel options for services are direct sales, agent or broker, sellers' and

buyers' agents, franchises or contracted service deliverers, etc. Table 2.3 provides an illustrative list of the intermediaries who sell services.

Table 2.3
Typical intermediaries for services

Service	Intermediaries
Hotels	Travel agents, tour operators, airlines
Airlines	Travel Agents, hotels
Life Insurance	Agents
Shares	Stock Brokers
Employment	Employment agencies
Financial Services	Banks, financial institutions

Source : L. Johari "Marketing of services : Conceptual framework", (New Delhi : IGNOU Study Material on Service marketing) 1996, pp-22.

(iii) How to provide service to maximum number of customers: The third decision variable in the distribution strategy is how to provide the service to a maximum number of customers in the most cost-effective manner. Some of the innovations in the area are:

- Rental or leasing-leasing or rental offers an easy solution for companies which want to expand and diversify but do not have the necessary resources to buy the required plant and machinery. This trend is now also becoming popular in services. Today we have the concept of time-sharing for holiday resorts.
- Franchising-franchising is the granting of rights to another person or institution to exploit a trade name, trade mark or product in return for a lump-sum payment or a royalty. In service industries franchises operate in the area of hotels, restaurants, car rentals, fast food outlets, beauty parlours, travel agencies, couriers, computer education, etc.
- Service integration - recent times have also witnessed the growth of an integrated service system. Hotels offer local tours and airlines offer holiday resort services. Travel agencies offer 'package tours' in which they take care of all formalities such as visa, foreign exchange, reservations, local travel, etc.

All these trends highlight the importance of using innovative methods to overcome the inherent characteristics of service products which make their distribution a complex affair.

2.5 PROMOTION

The promotion element of the services marketing mix forms a vital role in communicating the positioning of the service to customers. Promotion adds significance to services; it can also add tangibility and help the customer make a better evaluation of the service offer. The fundamental difference which must be kept in mind while designing the promotion strategy is that the customer relies more on subjective impressions rather than concrete evidence. This is because of the inherent nature of services. Secondly, the customer is likely to judge the quality of service on the basis of the performer rather than the actual service. Thirdly, since it is difficult to sample the service before paying for it, the customers find it difficult to evaluate its quality and value. Thus, buying a service is a riskier proposition than buying a product. So, the service marketers must design a promotion strategy which helps the customers overcome these constraints.

George and Berry have identified six guidelines for services advertising which really are applicable to most elements of the communication mix. These apply to a wide range of service industries, but not to all of them, because of the heterogeneous nature of services.

- Provide tangible clues- A service is intangible in the sense that a performance rather than an object is purchased. Tangible elements within the product surround can be used to provide tangible clues, e.g. seating comfort in aircraft.
- Make the service understood- Services may be difficult to grasp mentally because of their intangibility. Tangible attributes of the service can be used to help better understand the service offered, e.g. credit cards.
- Communication continuity- This is important to help achieve differentiation and present a unifying and consistent theme over time. McDonalds and Disney logo provide good examples of such continuity.
- Promising what is possible- Service firms need to deliver on their promises. If a promise such as fast delivery cannot be consistently met, it should not be made at all, e.g. Domino's Pizza.

- Capitalising on word of mouth- The variability inherent in services contributes to the importance of word of mouth. Word of mouth is a vitally important communication's vehicle in services, as evidenced by the way we seek personal recommendations for lawyers, accountants, doctors, bankers, etc.
- Direct communications to employees- In high contact services communication should be directed at employees to build their motivation, e.g. cabin crew of airlines.

The promotion mix of services include the following elements:

(i) Advertising: It is any kind of paid, non-personal method of promotion by an identified organisation or individual. The role of advertising in services marketing is to build awareness of the service, to add to customer's knowledge of the service, to help persuade the customer to buy, and to differentiate the service from the other service offerings. Relevant and consistent advertising is therefore, of great importance to the success of the marketing of the service. Advertising has a major role in helping deliver the desired positioning for the service. Since the core product is intangible it is difficult to promote, and therefore, service marketers frequently choose tangible elements within the product for promotion. Thus, airlines promote the quality of their cuisine, seat width, and the quality of their in-flight service. Certain services such as entertainment, transportation, hotel, tourism and travel, insurance, etc. have been advertising heavily in newspapers, magazines, radio, TV to promote greater usage and attract more customers. However, certain service professionals such as doctors and lawyers had rarely used advertising as a means of increasing their clientele. But, this situation is changing and one can occasionally see an advertisement in the daily newspaper giving information about the location and timings that a particular doctor is available for consultation. These advertisements may also carry the message 'Honorary doctor to the president of India' or ex-director of a prestigious medical college, etc. Such messages help create a positive image and credibility.

(ii) Personal selling: Personal selling has a vital role in services, because of the large number of service businesses which involve personal interaction between the service provider and the customer, and service being provided by a person, not a machine. The problem with using personal selling to promote services is that in certain types of services, 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 offered to customers.

(iii)Sales promotion: 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.
- 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 up to 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.

(iv) Publicity: It is unpaid for exposure which is derived by getting coverage as a news or editorial item. It is possible to get publicity when the service which one is offering is unique and, therefore, newsworthy, by holding a press conference in which offered services can be associated with some issues of greater social relevance or by involving the interest of the newspaper or its staff in covering the service. The important point about publicity is that the choice of newspaper, magazine and journal should be correct. The vehicle which is chosen must be credible and enjoy a reputation of being trustworthy. A wrong choice of media vehicle will result in adverse publicity.

(v) Word of mouth: One of the most distinctive features of promotion in service businesses is the word of mouth communications. This highlights the importance of the people factor in services promotion. Customers are often closely involved in the delivery of a service and then talk to other potential customers about their experiences. Research points to personal recommendations through word of mouth being one of the most important information sources. Where people are the service deliverers personal recommendation is often the preferred source of information. Thus, word of mouth can have a more important impact than other promotion mix elements in a number of services, including professional and health care services. Positive or negative word of mouth communication will then influence the extent to which others use the service. However, negative experiences tend to have a greater impact than positive experiences. Customers who are dissatisfied tend to tell

more than twice as many people of their poor experiences as those who are satisfied relate good experiences.

2.6 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 behaviours 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 interpersonal 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, consultants one satisfied customer will lead to a chain reaction, bringing in his wake a number of other customers. So, its 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.

2.7 PHYSICAL EVIDENCE

It refers to the environment in which service is delivered and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service. The physical evidence of service includes all of the tangible representations of the service such as, brochures, letterhead, business cards, report format, signage, equipment, etc.

Packaging importance stems from the fact that it is what comes in between the product and the customer's eye. The product package is a visual representation of the whole marketing effort. The customer judgement and evaluation are often based on the product packaging.

Physical evidence is to a service, what the packaging is to a product. In services, the product itself being intangible, the need is to tangibles it as far as possible. Thus, physical entities can be successfully employed to describe the service product and its distinguishing qualities. Since the potential customers form impressions about the service organisations on the basis of physical evidence, like building, furniture, equipments, stationery and brochures, it becomes imperative that the marketers manage the physical evidence in a manner that reinforces the proposed position and image of the organisation.

Cleanliness in a doctor's clinic, the exterior appearance and interior decor of a restaurant, the comfort of the seating arrangement in a cinema hall, adequate facility for personal needs at the airport, all contribute towards the image of the service as perceived by the customer. The common element in these is that they are all physical, tangible and controllable aspects of a service organisation. There may be two kinds of physical evidence:

(i) *Peripheral evidence:* It is actually possessed as a part of the purchase of service but by itself is of no value. An airline ticket, cheque book, or receipt for a confirmed reservation in a hotel are examples of peripheral evidence. A cheque book is of value only if customer has money in the bank, without that it is of no significance. Peripheral evidence adds on to the value of essential evidence, such as writing pad, pen, match box, complimentary flowers and drinks, etc. in a hotel, which customer may take away. Such evidence must be designed keeping in mind the overall image which the organisation wishes to project and the reminder value of the evidence in its ability to remind the customer about the organisation.

(ii) *Essential evidence:* Whereas the peripheral evidence is possessed and taken away by the customer, the essential evidence cannot be possessed by the customer; the building, its size and design, interior layout and decor, logo, etc. of the organisations are constituents of essential evidence. The essential evidence is a very critical input in determining the

atmosphere and environment of the service organisation.

Physical evidence can be used to build strong association in the customers' minds and service can be differentiated from the competitor's similar offering. By making the service more tangible and making it easier for the customer to grasp the concept of the service, marketers can create the ideal environment for the service offering.

2.8 PROCESS

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.

The process by which services are created and delivered to the customer is a major factor within the services marketing mix, as services customers will often perceive the service delivery system as part of the service itself. Thus, decisions on operations management are of great importance to the success of the marketing of the service. In fact, continuous coordination between marketing and operations is essential to success in most services businesses. Identification of process management as a separate activity is a prerequisite of service quality improvement. The importance of this element is especially highlighted in service businesses where inventories cannot be stored. Through the introduction of automatic teller machines (ATMs) banks have been able to free staff to handle more complex customer needs by diverting cash only customers to the ATMs. If the processes supporting service delivery cannot, for example, quickly repair equipment following a breakdown or provide a meal within a defined period, an unhappy customer will be the result. This suggests that close cooperation is needed between the marketing and operations

staff who are involved in process management. By identifying processes as a separate marketing mix element, its importance to service quality is duly recognized.

2.9 SUMMARY

Service industries have typically lagged behind manufacturing firms in adopting and using marketing concepts. But, this is now changing. One of the most basic concept in marketing is the marketing mix. The traditional marketing mix is composed of the four P's: product, price, place (distribution) and promotion. The specific nature of services i.e., intangibility, heterogeneity, inseparability and perishability has service marketers to adopt the concept of an expanded marketing mix for services. In addition to the traditional four P's, the service marketing mix includes people, physical evidence, and process.

2.10 KEYWORDS

Marketing Mix: Set of tools with the help of which marketing exercise is undertaken and is comprised of 4 Ps namely Product, Price, Place and Promotion. In case of services, three more Ps can be added – People, Process and Physical evidence.

People: Refers to all the human beings who play part in service creation and delivery process.

Physical Evidence: The environment in which the service is delivered and where the firm and customer interact and any tangible component that facilitate the performance of the service.

Process: Actual procedure, mechanism and flow of activities by which the service is delivered.

2.11 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. Do you think 'physical evidence' really matters in marketing of services? Explain.
3. Explain the 'process' as one of the important element of marketing mix with suitable examples.

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LESSON: 3

SERVICE PRODUCT DEVELOPMENT

Subject: Marketing of Service

Paper Code: MM-411

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STRUCTURE

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Characteristic of Services
- 3.3 Components of Services
- 3.4 Management of Service Offer
- 3.5 The Product Life Cycle
- 3.6 Problem with the Product Life Cycle
- 3.7 New Service Development
- 3.8 New Service Development – Some Critical Issues
- 3.9 Summary
- 3.10 Keywords
- 3.11 Self Assessment Questions

3.12 References / Suggested Readings

3.0 OBJECTIVES

After going through this lesson, you will be able:

- To understand the concept and components of a service
- To know about the product life cycle
- To learn service product strategies
- To know service development process

3.1 INTRODUCTION

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 comprises 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.

The Service Concept

The service concept is the core of the service offering. Two levels of service concept are possible. The 'general' service concept refers to the essential product being offered (e.g. a car hire company offers solutions to temporary transportation problems). In addition, there will be 'specific' service concepts at the core of specific service (e.g. candle-lit dinners or oriental foods for restaurants). The service concept has to be translated into the 'service formula'. This translation process, implies not only a clear definition of the service concept (i.e. what consumer benefits is the service firm aiming to serve; which service attributes best express the consumer benefit). It also demands attention to the service process; that is the ways and means the service is produced distributed and consumed' the market segment has to be identified' the organization-client interface has to be organized in a network' the service image has to facilitate clear communication between the service organization and its potential clients. The service concept is the definition of the offer in terms of the bundle of goods and services sold to the consumer plus the relative importance of this bundle to the consumer. It enables the manager to understand some of the intangibles, elusive and implicit that affect the consumer decision and to design and operate his organization to deliver a total service package that emphasizes the important element of that package. The marketing concept dictates that marketing decisions should be based upon customer needs and wants. Buyers purchase goods and services to satisfy their needs and wants. Thus when a buyer engages in a market transaction he perceives a bundle of benefits and satisfaction to be derived from that transaction. However he does not usually divide the market offering into its component parts. From the sellers' view point however the market offering can be divided into its component parts. The marketing mix is the convenient means of organizing all the variables controlled by the marketer that influence transactions in the marketplace. It is a 'checklist approach' where marketer's attempt to list and organize the variables under their control which may be important in influencing transactions in the market place.

3.3 THE COMPONENTS OF A SERVICE

The products that firms market do differ in extent to which they involve the transfer of ownership of physical goods. However, intangible components inevitably play a pivotal role in winning and maintaining a satisfied customer. To stress this point we will refer to all market offerings of firms as their services and point out that these services can be broken down into four main components which are shown as diagrammatically:

Service Delivery	Service Product
Service Environment	Physical Product

Components of Service

The Physical product is whatever the organization transfers to the customer that can be touched. It is tangible and physically real. Examples include houses, automobiles, computers, books, hotel soap and shampoo, and food.

The Service product is the core performance purchased by the customer, the flow of events designed to provide a desired outcome. It refers to that part of the experience apart from the transfer of physical goods and typically includes interactions with the firm's personnel'.

The service environment can also signal the intended market segment and position the organizations. For example, a restaurant near a university campus might signal that it is catering to college students by putting college memorabilia and pictures of students on the walls. The service product is the result of "planning your work, "and the service delivery is the result of working your plan. For example, the service may be that a fast-food customer is greeted cheerfully within ten seconds, but the actual service delivery may be hindered by the counter employee joking in the back of the store for five minutes with other employees.

3.4 MANAGEMENT OF SERVICE OFFER

The service offer is concerned with giving more specific and detailed shape to the basic service concept notion. Management of services offer is concerned with making decisions viz. what service will be provided, when they will be provided, how they will be provided and so on. These decisions and thinking through the implication of actions affecting at least components:

1. Elements of Service

The service elements are the ingredients of a total service offer; they are the particular bundle of tangibles and intangibles which compose the service product. Service managers face two particular problems in defining the composition of a service offer. First there is the difficulty of articulating all of the elements that could make up a service offer. It is usually easier to articulate the tangible elements than the intangible. Secondly there is the difficulty of deciding upon the particular set of elements the service organization will actually use in its service offer.

But some elements of a service offer are less controllable. Management can ensure that all guests signing in at a hotel reception desk are formally greeted by the receptionist. There is less control over the warmth of the greeting. Nevertheless management must try to anticipate some of these controllable elements and ensure that the climate of the organization contributes to rather than detracts from the service offer.

2. Forms of Service

Service elements are offered to the marketplace in different forms. Service form is concerned with examining in details the various options relating to each service elements. The particular decision taken on the precise form of each service elements will depend upon a number of factors including market requirements, competitors' policies and the need to obtain balance within, and between, the various elements that make up the service product offer-what is called 'cohesiveness and coherence of the set of services offered'.

3. Levels of Service

An offer can be viewed at several levels as follows:

Core or generic For consumer or industrial products this consists of the basic physical product, e.g. 2 kg of sugar, a packet of self-tapping screws, or a camera. The core elements for a camera, for example, consists of the camera body, the viewer, the winding mechanism, the lens and the other core basic physical components which make up the transactional utility in the form of deposits and withdrawals.

Expected: This consists of the generic product together with the minimal purchase conditions which need to be met. When a customer buys a video cassette recorder they expect an instruction book which explains how to programme it, a warranty for a reasonable period should it break down, and a service network so that it can be repaired.

Augmented: This is the area which enables one offer to be differentiated from another. For example, IBM has a reputation for excellent customer service although they may not have the most technologically advanced core product. They differentiate by 'adding value' to the core, in terms of service reliability and responsiveness.

Potential: This consists of all potential added features and benefits that are or may be of utility to some buyers. The potential for redefinition of the product gives advantages in attracting new users or 'looking' in 'existing customers. This could make it difficult or expensive for customers to switch to another supplier.

3.5 THE PRODUCT LIFE-CYCLE

Introduction

In the beginning, sale of new products increase slowly. Factors influencing the growth of sales at this stage include the relatively small number of innovative customers, problems of building effective distribution, technical problems of assuring quality and reliability and limited production capacity. Profits too may be low or non-existent at this stage because of factors like the promotional costs involved in promoting sales.

Growth

In this stage sales grow. More consumers follow the lead of innovators, the market broadens through policies of product differentiation and market segmentation, competitors enter the market, and distribution broadens. Profit margins peak as experience effects serve to reduce unit costs and promotional expenditures are spread over larger sales volumes.

Maturity

In this stage, sales are at peak. The growth rate in sales goes considerably down as most of the consumers are already having the product where as new ones are difficult to add. Profit margins are at peak and reduced unit costs and promotional expenditures are spread over larger sales volumes.

Saturation

In this stage, sales level is almost stagnant. Growth is increasingly governed by factors like population growth or attempts to stretch the cycle through market segmentation strategies. Profits too decline because of the number of competitive offerings, cost reductions become more difficult and smaller specialist competitors eat into the market.

Decline

In this stage sales decline because of changing tastes, fashions and technical advances causing product substitution. Declining sales are accompanied by reducing profit margins as too many competitors fight for the remaining market. Price cutting may be active and marginal competitors fall out of the industry.

Problems with the Product Life-Cycle Concept

It is not surprising that the lifecycle concept has critics. Some attempts to derive the conventional S-shaped curve of the cycle with its stage of introductions, growth, maturity and decline have not been altogether convincing. In fact some authors have even gone so far as to suggest that the idea should be forgotten altogether. Some authors suggested that the concept of product portfolio may be useful for a company to balance its tangible products by stage of the lifecycle as part of its planning process. They argued that with some exceptions (e.g. banks) most service organizations have only a very small number of core services or do not have the flexibility for combining different services belonging to the same category. They also highlight the importance of defining in what context the term product lifecycle is used. This gives rise to a second set of problems.

The Intangible Nature of Services

The intangible nature of services means that it is often quite easy to produce slight variants of an existing service with the result that the term 'new service' can mean anything from a minor style change to a major innovation. The following may be the classification of new services:

- 1 Changes in Style: These include changes in decor or logo the revised design of telephone for example.

- 2 Improvement in Service: These involve an actual change to a feature of the service already on offer to established market-computerizations of travel-agency information and booking procedures, for example.
- 3 Extensions in Service Line: These are additions to the existing service product range-new modes of study for an MBA course at a university, for example.
- 4 News services for Existing Customers: These are new services that are offered by an organization to its existing customers, although they may be currently available from its competitors-building societies offering current accounts, with cheques books, standing-order facilities, etc., for example.
- 5 Innovations in Services: These are entirely new services for new markets-the provisions of multi user 'voice mail' recording services, for example.

STRATEGIES OF SERVICE PRODUCTS

Decisions about an organization's product mix are of strategic importance. A service company may need to widen its product mix in order to remain competitive in the phase of declining demand for its principal service line. For example, the increasing diversity in food tastes has forced many specialized fast-food outlets to widen their range and traditional fish and chip shops have often had to introduce new lines such as kababs or home-delivery services.

The product strategies are available to a service firm for its main services:

- 1 **Market penetration:** An organization continues to supply its existing services to its existing customer segments, but seeks to increase sales from them. This may be achieved by increasing their total consumption of that type of service, or by taking consumers from competitors.
- 2 **Market extension:** New types of consumer are found for existing services. For example, a restaurant chain may extend its operations to a new overseas market, or higher education institutions may promote their courses to new groups of mature students.
- 3 **Service development:** New or modified services are developed to sell to the current market. For example, a bank may offer a new type of charge card aimed at its current customer base.

- 4 **Diversification:** New services are offered to new markets-for example, a traditional package-holiday operator offering a conference-organizing service.

3.6 **PROBLEM WITH THE PRODUCT LIFECYCLE**

In reality, lifecycle patterns are far too variable in both shape and duration for any realistic predictions to be made. A second difficulty in applying the lifecycle concept lies in the inability of marketers to ascertain accurately where in the lifecycle a product actually is at any time. For example, a stabilization of sales may be a movement into maturity or simply a temporary plateau due to external causes. In fact, it is possible that the shape of the lifecycle is a result of an organization's marketing activity rather than an indication of environmental factor to which the organization should respond-in other words, it could lead to a self-fulfilling prophecy.

Another criticism of the concept is that the duration of the stages will depend upon whether it is a product calls, form or brand which is being considered. For example, the lifecycle for holidays is probably quite flat, whereas those for particular formulations of holidays and for specific holiday operators' brand become progressively more cyclical.

3.7 **NEW SERVICE DEVELOPMENT (NSD)**

1. **Idea Generation**

Ideas may be generated in many ways. They can arise inside the organization and outside it, they can result from search procedures (e.g. marketing research) as well as informally; they may involve the organization in creating the means of delivering the new service product or they may involve the organization in obtaining rights to services product, like franchise.

2. **Idea Screening**

This stage is concerned with checking out which ideas will justify the time, expense and managerial commitment of further research and study. Two features usually associated with the screening phase are:

- i. The establishment or use of previously agreed evaluative criteria to enable the comparison of ideas generated (e.g. ideas compatible with the organization's

objectives and resources);

- ii. The weighing, ranking and rating of the ideas against the criteria used.

3. Concept Development and Testing

Ideas surviving the screening process then have to be translated into product concepts. In the service product context this means concept development and concept testing.

(a) Concept Development

This phase is concerned with translating the service product idea, where the possible service product is defined in functional and objective terms, into a service product concept, the specific subjective consumer meaning the organization tries to build into the product idea.

(b) Concept Testing

Concept testing is applicable in services contexts as well as in goods' contexts. Concept testing consists of taking the concepts developed after the stages of idea generation and idea screening and getting reactions to them from groups of target customers.

4. Business Analysis

This stage is concerned with translating the proposed idea into a firm business proposal. It involves undertaking a detailed analysis of the attractiveness of the idea in business terms and its likely chances of success or failure. A substantial analysis will consider in detail aspects like the manpower required to implement the new service product idea, the additional physical resources required, the likely estimates of sales, costs and profits over time, the contribution of the new service to the range on offer, likely customers reaction to the innovation and the likely response of competitors.

5. Development

This stage requires the translation of the idea into an actual service product for the market. Typically this means that there will be an increase in investment in the project. Staff may have to be recruited or trained, facilities may have to be constructed, and communications systems may need to be established. The tangible elements of the service product will be

designed and tested. Unlike goods the development stage of new service product development involves attention to both the tangible elements of the service product delivery system.

6. Testing

Testing of new service products may not always be possible. Airlines may introduce a new class of service on a selected number of routes or a bank may make a new service available initially on a regional basis like automated cash dispensers. But some new service products do not have such an opportunity. They must be available and operate to designed levels of quality and performance from their introduction.

7. Commercialization

This stage represents an organization's commitment to a full-scale launch of the new service product. The scale of operation may be relatively modest like adding an additional service to an airline's routes or large scale involving the national launch of fast service footwear repair outlets operating on a concession basis. In undertaking the launch, the four points may apply:

- (a) When to introduce the new service product;
- (b) Where to launch the new service product, whether locally, regionally nationally or internationally;
- (c) To whom to launch the new service product usually determined by earlier exploration in the new service product development process;
- (d) How to launch the new service product. Unit trusts for example may offer a fixed price unit on initial investments for a certain time period.

3.8 NEW SERVICE DEVELOPMENT – SOME CRITICAL ISSUES

The buyer's choice of a new service product may be influenced by features associated with it. These features may be seen as a fundamental part of the 'core' service by the consumers or as 'peripheral' to the core service. In tangible product marketing the brand, the colour, the design or the package may be important contributory factors to the consumer's purchase decision.

1. Branding

'Branding, brand development and brand acceptance are usually not prominent in the marketing of services'. Certainly branding is difficult because of the problems of maintaining consistency of quality in service settings. Example: In a study of brand loyalty in the context of the computer rental market it was found there was no one reason why customers terminated rental agreements or maintained or renewed their agreements.

2. Patent

The intangibility of services means that there are no patents. It is thus difficult to prevent competitors from copying service innovations though trade names can be protected. This means that innovations can have short life-cycles because they are easy to copy.

3. Warranty

Warranties are usually related to product sales. However they can be an important elements in the strategy of service marketers. In law a warranty is an undertaking on the vendor's part that the thing sold by the vendor is fit for use or fulfills specified conditions. Such undertakings are of two kinds, implied and express.

Warranties can be of importance in marketing certain services. For example investment schemes which guarantee payments in spite of changes in external conditions can be a useful factor in marketing financial services.

4. Service Product After-sale Service

After-sale service is usually associated with the sale of tangibles. However it too has relevance to services markets. For example, an airline can assist passengers to arrange hire cars and book hotels as part of their service; an insurance company can advise clients on changes they should make to their policies as their personal circumstances change; a stockbroker can assist the client to readjust a portfolio of shares; a dentist can provide a check-up some time after providing dental treatment.

The elimination of service of service products of course is not easy and indeed organizations may adopt a number of strategies before doing so like selling overseas,

optimizing profitability over whatever life remains or revitalizing the offering in some way. But these moves do not ultimately remove the need for systematic procedures to assist with decision making in this area.

3.9 SUMMARY

Services are economic activities that create and deliver value and benefits to the customers. The components of a service are – service product, physical product, service delivery and service environment. Like human beings, services also have a product life cycle which includes different stages of a product 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. The new service development is a process which needs to be undertaken very carefully.

3.10 KEYWORDS

Service concept: It is the core of the service offering.

Product life cycle: The stages through which a product undergoes during its life time.

Market penetration: Increasing the sales of the product by increasing the total consumption of consumers or attracting competitors' customers.

Market extension: Attracting new types of consumer for existing services.

Service development: Developing or modifying services to sell to the current market.

Diversification: Developing new services to be offered to new markets.

3.11 SELF ASSESSMENT QUESTIONS

1. What are the components of a service offer? Also discuss different levels of service.
2. What are the various product strategies available to a service firm? What are the implications of each?
3. What is the relevance of the life cycle concept to service products?

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LESSON: 4

SERVICE CONSUMER BEHAVIOUR

Subject: Marketing of Service

Paper Code: MM-411

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STRUCTURE

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Consumer needs and expectations
- 4.3 Decision making roles
- 4.4 Factors influencing consumers behaviour
- 4.5 How customers evaluate service performances
- 4.6 Service decision making process
- 4.7 Purchase process for services
- 4.8 Summary
- 4.9 Keywords
- 4.10 Self Assessment Questions
- 4.11 References / Suggested Readings

4.0 OBJECTIVES

After going through this lesson, you will be able:

- To understand why it is important to have a proper knowledge of the consumer
- To identify the kinds of role that are played in purchase process.
- To know the factors influencing consumer behaviour.
- To explain the consumer decision making process.

4.1 INTRODUCTION

The primary objective of service producers and marketers is identical to that of all

marketers: to develop and provide offerings that satisfy consumer needs and expectations, thereby ensuring their own economic survival. In other words, service marketers need to be able to close the customer gap between expectations and perceptions. To achieve this objective, service providers need to understand how consumers choose and evaluate their service offerings. Unfortunately, most of what is known about consumer evaluation processes pertains specifically to goods. The assumption appears to be that services, if not identical to goods, are at least similar enough in the consumer's mind that they are chosen and evaluated in the same manner.

This chapter challenges that assumption and shows that services' unique characteristics necessitate different consumer evaluation process from those used in assessing goods. Recognizing these differences and thoroughly understanding consumer evaluation processes are critical for the customer focus on which effective services marketing is based. Consumers have a more difficult time evaluating and choosing services than goods, partly because services are intangible and non-standardized and partly because consumption is so closely intertwined with production. These characteristics lead to differences in consumer evaluation processes for goods and services in all stages of buying process.

4.2 CUSTOMER NEEDS AND EXPECTATIONS

Customers buy goods and services to met specific needs, and they evaluate the outcomes of their purchases based on what they expect to receive. Needs are deeply rooted in people 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 create 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.

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. Customers predictions of service may be situation specific.

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.

4.3 DECISION MAKING ROLES

In the buying decision process, at times, other people also influence the buying decision and these people have a definite role to play. In the purchase of any particular service, six distinct roles are played. These are:

Initiator-The person who has a specific need, and proposes to buy a particular service

Influencer-The person or the group of people who advise the decision maker. These could be reference groups, both primary and secondary. It could be even secondary reference group like word of mouth or media, which can influence the decision maker.

Gatekeeper-The person or organization or promotional material which acts as a filter on the range of service which enter the decision choice set.

Decider-The person who makes the buying decision. Irrespective of whether they execute the purchase themselves or not, they may instruct others to execute. It has been observed, at times, more typically in household or family or individual related services that one member of the family may dominate in the purchase decision.

Buyer-The person who makes the actual purchase or makes bookings for a services like our lives travel, hotel room, hospital, bed diagnostic lab, etc.

User-The person who actually uses or consumes the product. It can be someone other than the buyer. In a number of services it has been observed that users are also the influencers.

4.4 FACTORS INFLUENCING CONSUMER BEHAVIOUR

There are a number of factors or variables which affect buying behaviour.

Situational factors

The situational factors influencing the buying behaviour are- the influence of time pressure in service and brand choice, the atmosphere of the service outlet, occasion of purchase, etc. For example, if you are traveling, then demand for lodging and boarding will obviously be there.

Socio-cultural factors

Buyers or consumers do not take buying decisions or the decision not to buy, in a vacuum. Rather, they are strongly influenced by cultural and social factors.

Cultural factors-Children acquire from their environment a set of beliefs values and customs which constitute culture. These beliefs, values and customs go deeper and deeper as a person grows. Therefore, it is sometimes said that culture is learned as a part of social experience. The various sub-categories within a culture can be identified based on religion, age, gender, occupation, social class, geographical location, etc.

Reference groups -There are certain groups to which people look to guide their behaviour. These reference groups may guide the choice of a product but not necessarily the brand. Peer group and peer pressure has generally been observed to play an important role in the purchase of credit cards, cell phones, etc. The knowledge of reference group behaviour helps in not only offering substitutes but also in pricing and positioning them.

Family-The family is another major influence on consumer behaviour. Family consumption behaviour, to a large extent, depends on the family life cycle. The stages in family life cycle include bachelorhood, newly married, parenthood with growing or grown up children, post-parenthood and dissolution. Knowledge of these stages helps greatly in knowing the buying process. Often family members play a significant role in the purchase of a particular service.

Psychological Factors

Perception-It is the process by which buyers select, organize and interpret information into a meaningful impression in their minds. Perception is also selective when only a small part is perceived out of the total of what is perceptible. Buyer's perception of a particular service greatly influences buying behaviour.

Attitude-An attitude is a learned predisposition to respond in a consistently favourable or unfavourable manner with respect to a market offer (i.e., a brand, a particular shop or retail outlet, an advertisement, etc.). Attitude is a dispositional term indicating that attitudes manifest themselves in behaviour only under certain conditions. Knowing a buyer's attitude towards a product without knowing the personal goals is not likely to give a clear prediction of his behaviour.

Motivation- Motivation is the driving force within individuals that compels them to action. This driving force is subconscious and the outcome of certain unfulfilled needs. Needs are basically of two types- first, the 'innate needs' are those needs with which an individual is born and they are mainly physiological. They include all the factors required to sustain physical life e.g., food, water, shelter, clothing, etc. Secondly, the 'acquired needs' are those which a person acquires as he/she grows and these needs are mainly psychological, like love, fear, esteem, acceptance, etc.

Personal factors

Personality- Personality can be described as the psychological characteristics that determine how an individual will react to his or her environment.

Life style-Life style as distinct from social class or personality is nothing but a person's pattern of living and is generally expressed in his/ her activities, interests and opinions. Life style suggests differences in the way people opt to spend on different products or services differently.

Demographic factors-Buyers demographic factors like age, gender, education, occupation, etc., also influence his/her purchase behaviour. In sum, knowledge on all such dimensions of the consumer will help in understanding his needs and wants and also help in integrating all these elements in service offer which the consumer wants.

4.5 HOW CUSTOMERS EVALUATE SERVICE PERFORMANCES

Service performances-especially those that contain few tangible clues can be difficult to evaluate. As a result, there is a greater risk of making a purchase that proves to be disappointing. Customers who have purchased a physical good that subsequently proves to be a poor choice can often recover easily from their mistake (for instance, they can return a defective CD player, exchange clothing that is the wrong size, or have a car repaired under warranty). These options are not as readily available with services, although recovery is easier for some types of service than others. In the case of possession-processing services, repeating the performance may be an acceptable option. For example, a cleaning service can re-clean an office if a customer complains about the poor quality of the job. By contrast, people-processing services that are performed on people's bodies may be hard to reverse. After all, a bad haircut must be grown out, and the consequences of a faulty surgical operation or a poorly done tattoo may last forever!

Mental stimulus-processing services such as education, live entertainment, or sporting events can also be difficult to replace if quality does not meet customers' expectations. Theatergoers cannot realistically ask for their money back if actors perform their roles poorly or the script is bad, and neither can sports fans expect refunds if their favourite team plays badly (instead, they use other methods to let the players know of their dissatisfaction!). Similarly, universities don't usually compensate students for poor-quality classroom experiences. Even if a college were willing to let dissatisfied students repeat

classes free of charge with a different instructor, those students would still incur significant extra time and mental effort.

Finally, information-based services can present challenges for customers when service quality is unsatisfactory. Banking or accounting errors may not be noticed until later, by which time damage may have been done to a customer's reputation (for instance a check was returned rather than paid or a faulty tax return was filed). Customers who receive a consulting recommendation or medical opinion that they are not satisfied with, have the option of seeking a second opinion, but that will involve extra money, time, and worry.

A continuum of product attributes

One of the basic differences between goods and services is that services are harder for customers to evaluate. All products can be placed on a continuum ranging from "easy to evaluate" to "difficult to evaluate" depending on whether they are high in search attributes, experiential attributes, or credence attributes. These three attribute categories provide a useful framework for understanding how consumers evaluate different types of market offerings.

Search attributes-Physical goods tend to emphasize those attributes that allow customers to evaluate a product before purchasing it. Features such as style, color, texture, taste, and sound allow prospective consumers to try out, taste-test, or test-drive the product prior to purchase. These tangible attributes help customers understand and evaluate what they will get in exchange for their money and reduces the sense of uncertainty or risk associated with the purchase occasion. Goods such as clothing, furniture, cars, electronic equipment, and foods are high in search attributes.

Experience attributes-These are properties that can't be evaluated prior to purchase. Customers must experience these features to know what they are getting. Holidays, live entertainment performances, sporting events, and restaurants fall into this category. Although people can examine brochures, scroll through Web sites that explain the features

of a holiday destination, view travel films, or read reviews by travel experts, they can't really evaluate or feel the dramatic beauty associated with hiking in the Canadian Rockies or the magic of scuba diving in the Caribbean until they actually experience these activities. And neither can customers always rely on information from friends, family, or other personal sources when evaluating these or other types of services. Consider your own experiences in following up recommendations from friends to see a particular film. Although you probably walked into the theater with high expectations, you would have felt disappointed after viewing the film if it did not live up to your expectations. Different people may interpret or respond to the same stimuli in different ways.

Credence attributes- Product characteristics that customers find impossible to evaluate confidently even after purchase and consumption are known as credence attributes because the customer is forced to trust that certain benefits have been delivered even though it may be hard to document them. For example, relatively few people possess enough knowledge about financial markets to assess whether their stock broker got the best possible returns on their invested funds. Patients can't usually evaluate how well their dentists have performed complex dental procedures. And most college students must simply have faith that their professors are providing them with a worthwhile educational experience!

In summary, most services tend to be located from the center to the right of the continuum, reflecting two of the basic differences between goods and services, intangibility of service performances and variability of inputs and outputs (which often leads to quality control problems). These characteristics present special challenges for service marketers, requiring them to find ways to reassure customers and reduce the perceived risks associated with buying and using services whose performance and value can't easily be predicted.

4.6 SERVICE DECISION-MAKING PROCESS

Consumer decision-making process has four main categories: (1) information search, (2) evaluation of alternatives, (3) purchase and consumption, and (4) post-purchase evaluation.

In purchase of services, these categories do not occur in a linear sequence the way they most often do in the purchase of goods.

(a) Information search

Use of personal sources- Consumers obtain information about products and services for personal sources (e.g., friends or experts) and from non-personal sources (e.g., mass or selective media). When purchasing goods consumers make generous use of both personal and non-personal sources because both effectively convey information about search qualities. When purchasing services, on the other hand, consumers seek and rely to a greater extent on personal sources.

Perceived risk-While some degree of perceived risk probably accompanies all purchase transactions, more risk would appear to be involved in the purchase of services than in the purchase of goods because services are intangible, non-standardized, and usually sold without guarantees or warranties.

First, the intangible nature of services and their high level of experience qualities imply that services generally must be selected on the basis of less pre-purchase information than is the case for products. Second, because services are non-standardized, there will always be uncertainty about the outcome and consequences each time a service is purchased. Third, service purchases may involve more perceived risk than product purchases because, with few exceptions, services are not accompanied by warranties or guarantees. The dissatisfied service purchaser can rarely “return” a service; he or she has already consumed it by the time he or she realizes his or her dissatisfaction.

(b) Evaluation of service alternatives

Evoked set-The evoked set of alternatives-that group of products a consumer considers acceptable options in a given product category- is likely to be smaller with services than with goods. One reason involves differences in retailing between goods and services. To purchase goods, consumers generally shop in retail stores that display competing products

in close proximity, clearly demonstrating the possible alternatives. To purchase services, on the other hand, the consumer visits an establishment (e.g., a bank, a dry cleaner, or a hair salon) that almost always offers only a single “brand” for sale. A second reason for the smaller evoked set is that consumers are unlikely to find more than one or two businesses providing the same services in a given geographic area, whereas they may find numerous retail stores carrying the identical manufacturer’s product. A third reason for a smaller evoked set is the difficulty of obtaining adequate pre-purchase information about services.

Emotion and mood-Emotion and mood are feeling states that influence people’s (and therefore customers’) perceptions and evaluations of their experiences. Moods are distinguished from emotions in that moods refer to transient feeling states that occur at specific times and in specific situations, whereas emotions are more intense, stable, and pervasive.

Because services are experiences, moods and emotions are critical factors that shape the perceived effectiveness of service encounters. If a service customer is in a “bad mood” when he enters a service establishment, service provision will likely be interpreted more negatively than if he were in a buoyant, positive mood. Similarly, if a service provider is irritable or sullen; his interaction with customers will likely be colored by that mood. Furthermore, when another customer in a service establishment is cranky or frustrated, whether from problems with the service or from existing emotions unrelated to the service, his or her mood affects the provisions of service for all customers who sense the negative mood. In sum, any service characterized by human interaction is strongly dependent on the moods and emotions of the service provider, the service customer and other customers receiving the service at the same time.

(c) Service purchase and consumption

Service provision as drama-Researchers and managers of service businesses have compared service provision with drama, observing that both aim to create and maintain a desirable impression before an audience, and both recognize that the way to accomplish this is by carefully managing the actors and the physical setting of their behaviour. In fact,

the service marketer must play many drama-related roles (including director, choreographer, and writer) to be sure the performances of the actors are pleasing to the audience.

The skill of the service “actors” in performing their routines, the way they appear, and their commitment to the “show” are all pivotal to service delivery. While service actors are present in most service performances, their importance increases when the degree of direct personal contact increases (such as in a hospital, resort, or restaurant), when the services involve repeat contact, and when the contact personnel as actors have discretion in determining the nature of the service and how it is delivered (as in education, medical services, and legal services).

Services roles and scripts-If we think of service performances as drama, we can view each players as having a role to perform. Roles have been defined as combinations of social cues that guide ad direct behaviour in a given setting. The success of any service performance depends in part on how well the “role set” or players- both service employees and customers- act out their roles. Service employees need to perform their roles according to expectations of the customer; if they do not, the customer may be frustrated and disappointed.

One of the factors that most influences the effectiveness of role performance is a script- a “coherent sequence of events expected by the individual, involving them either as a participant or as an observer”. Service scripts consist of a set of ordered actions, actors, and objects that, through repeated involvement, define what the customer expects. Conformance to scripts is satisfying to the customer, while deviations from the script lead to confusion and dissatisfaction.

(d) Post purchase evaluation

Attribution of dissatisfaction- When consumers are disappointed with purchases-because the products did not fulfill the intended needs, did not perform satisfactorily, or were not

worth their price- they may attribute their dissatisfaction to a number of different sources, among them the producers, the retailers, or themselves. Because consumers participate to a greater extent in the definition and production of services, they may feel more responsible for their dissatisfaction when they purchase services than when they purchase goods. As an example, consider a female consumer purchasing a haircut; receiving the cut she desires depends in part upon her clear specifications of her needs to the stylist. If disappointed, she may blame either the stylist (for lack of skill) or herself (for choosing the wrong stylist or for not communicating her own needs clearly).

Innovation diffusion- The rate of diffusion of an innovation depends on consumers' perceptions of the innovation with regard to five characteristics: relative advantage, compatibility, communicability, divisibility, and complexity. An offering that has a relative advantage over existing or competing products; that is compatible with existing norms, values, and behaviours; that is communicable; and that is divisible (i.e., that can be tried or tested on a limited basis) diffuses more quickly than others. An offering that is complex, that is, difficult to understand or use, diffuses more slowly than others.

Brand loyalty- The degree to which consumers are committed to particular brands of goods or services depends on a number of factors: the cost of changing brands (switching cost), the availability of substitutes, the perceived risk associated with the purchase, and the degree to which they have obtained satisfaction in the past. Because it may be more costly to change brands of services, because they may have more difficulty being aware of the availability of substitutes, and because higher risks may accompany services, consumers are more likely to remain customers of particular companies with services than with goods. Greater search costs and monetary costs may be involved in changing brands of services than in changing brands of goods. Because of the difficulty of obtaining information about services, consumers may be unaware of alternatives or substitutes for their brands, or may be uncertain about the ability of alternatives to increase satisfaction over present brands.

4.7 PURCHASE PROCESS FOR SERVICES

When customers decide to buy a service to meet an unfilled need, they go through what is often a complex purchase process. This process has three separate stages-the pre-purchase stage, the service encounter stage, and post-purchase stage.

Pre-purchase stage

The decision to buy and use a service is made in the pre-purchase stage. Individual needs and expectations are very important here because they influence what alternatives customers will consider. If the purchase is routine and relatively low risk, customers may move quickly to selecting and using a specific service provider. But when more is at stake or a service is about to be used for the first time, they may conduct an intensive information search. The next step is to identify potential suppliers and then weigh the benefits and risks of each option before making a final decision.

Service encounter stage

After deciding to purchase a specific service, customers experience one or more contacts with their chosen service provider. Contacts may take the form of personal exchanges between customers and service employees or impersonal interactions with machines or computers. In high-contact services, such as restaurants, health care, hotels, and public transportation, customers may experience a variety of elements during service delivery, each of which has the potential to provide clues to service quality.

Service environments include all of the tangible characteristics to which customers are exposed. The appearance of building exteriors and interiors; the nature of furnishings and equipment; the presence or absence of dirt, odor, or noise; and the appearance and behaviour of other customers can all serve to shape expectations and perceptions of service quality.

Post-purchase stage

During the post-purchase stage, customers continue a process they began in the service encounter stage- evaluating service quality and their satisfaction or dissatisfaction with the

service experience. The outcome of this process will affect their future intentions, such as whether to remain loyal to the provider that delivered service and whether to pass on positive or negative recommendations to family members and other associates.

Customers evaluate service quality by comparing what they expected with what they perceive they received. If their expectations are met or exceeded, they believe they have received high-quality service. If the price-quality relationship is acceptable and other situational and personal factors are positive, then these customers are likely to be satisfied. As a result, they are more likely to make repeat purchases and become loyal customers. However, if the service experience does not meet customers' expectations, they may complain about poor service quality, suffer in silence, or switch providers in the future.

4.8 SUMMARY

Gaining a better understanding of how customers evaluate, select, use, and occasionally abuse services should lie at the heart of strategies for service design and delivery. In this chapter, we discovered that several of the unique characteristics of services (especially intangibility and quality control problems) mean that customer evaluation processes often differ from those involved in evaluating physical goods and thus present unique challenges for services management.

4.9 KEYWORDS

Culture: A set of beliefs, norms, values and customs.

Perception: It is the process by which buyers select, organize and interpret information into a meaningful impression in their minds.

Attitude: It is a learned predisposition to respond in a consistently favourable or unfavourable manner with respect to an object.

Motivation: It the driving force within individuals that impels them to act in a particular direction.

Personality: It can be described as the psychological characteristics that determine how an individual will react to his or her environment.

Life style: It is a person's distinct pattern of living and is generally expressed in his/ her activities, interests and opinions.

4.10 SELF ASSESSMENT QUESTIONS

1. Describe search, experience and credence attributes and give examples of each.
2. Explain why services are often harder for customers to evaluate than physical goods.
3. Discuss the three stages in the purchase process for services.
4. Elaborate the various steps involved in consumer decision making process for services.
5. Identify the kinds of role that are played in services purchase process. Also write important factors influencing consumer behaviour.

4.11 SUGGESTED READINGS

1. Ravi Shanker, 'Services Marketing: The Indian Perspective', Excel Books.
2. Lovelock, 'Services Marketing: People, Technology, Strategy', Pearson Education.
3. Zeithaml and Bitner, 'Services Marketing: Integrating Customer Focus Across the Firm', Tata McGraw Hill.
4. Rust, Zahorik, and Keiningham, 'Service Marketing', Addison Wesley.
5. Fitzsimmons and Fitzsimmons, 'Service Marketing: Operations, Strategy, and Information Technology', McGraw Hill.

LESSON: 5**PACKAGING, BRANDING AND ADVERTISING FOR SERVICES**

Subject: Marketing of Service

Paper Code: MM-411

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Vetter: Prof. Harbhajan Bansal

STRUCTURE

- 5.0 Objectives
- 5.1 Introduction
- 5.2 The Marketing Mix in Services
- 5.3 Packaging of Services
- 5.4 Branding in Services
- 5.5 Advertising of Services
- 5.6 Summary
- 5.7 Keywords
- 5.7 Self-Assessment Questions
- 5.8 References / Suggested Readings

5.0 OBJECTIVE

After going through this lesson, you will be able:

- To explain the marketing planning process for branding and packaging,
- To suggest promotional strategies for service organizations.

5.1 INTRODUCTION

Commonly, the core of marketing is considered to be the marketing mix. It is also accepted in general that a marketer is viewed as a 'decider', or an 'artist' or a 'mixer of ingredients' who plans various means of fighting competition. He may follow a recipe prepared by others, or prepare his own as he goes along, or adopt a recipe to the ingredients immediately available, or experiment with or invent ingredients no one else has tried.

Further, it is logical to proceed from a realisation of the existence of a variety of marketing mixes to the development of a concept that would comprehend not only this variety, but also the market forces that cause managements to produce a variety of mixes. It is the problems raised by these forces that lead marketing managers to exercise their wits in devising 'mixes or programmes' to fight competition.

5.2 THE MARKETING MIX IN SERVICES

The concept of marketing mix was given due recognition in the marketing theory and the concept of marketing mix was accepted as the set of marketing tools that a firm uses to pursue its marketing objectives in the target market, influenced by specific environmental variables. According to McCarthy, the elements of marketing mix are 4Ps - product, price, place (i.e. distribution) and promotion. He even clarified that the customer is not a part of the marketing mix; rather, he should be the target of all marketing efforts. For service industries, Frey proposed that all marketing decision variables or service mix, which can be put under two subheads – the offering and the product. In goods marketing, we always say that there is a tangible component to which some intangibles like style, after-sales-service, credit, etc., are integrated. On the other hand in the case of services, the tangible component is nil. Traditionally, a product is described as an object, which is developed, produced, delivered and consumed. However, in services there is nil or only a little tangible element because of which they are considered as benefits which, are offered to the target market. There are two important things to note first, a service is a bundle of features and benefits and secondly, these benefits and features have relevance for a specific target market. Therefore, while developing a service product it is important that the package of benefits in the service offer must have a customer's perspective. Kotler has identified five levels of a product, taking the example of the hotel industry. It is the core and the basic which might be the same for most of the competing products while it is the other levels which make them different. These five levels and their meaning are depicted in table 5.1.

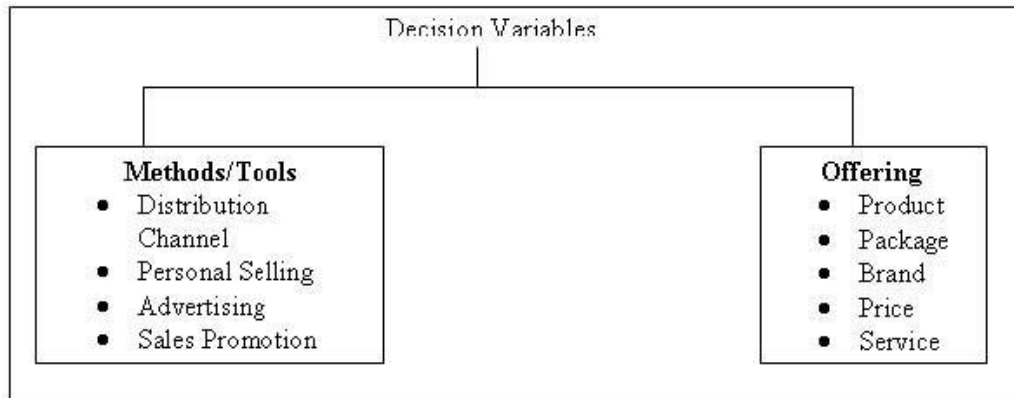


Table 5.1 Five Levels of the Product

1.	Core Benefit	The fundamental benefit or service that the Customer is buying (hotel: rest/sleep)
2.	Basic Product	Basic, functional attributes (room; bed; bath.)
3.	Expected Product	Set of attributes/conditions the buyer normally Expects (clean room, large towel, quietness)
4.	Augmented Product	That meets the customers desires beyond Expectations (prompt room services and check-In / out, music, aroma)
5.	Potential Product	The possible evolution to distinguish the offer (All-suite hotel)

Similarly, the services consist of three levels. The first level is that of the basic service package which includes core service, facilitating services and supporting services. The second level is that of an augmented service offering where accessibility, interaction and customer participation is given equal importance in delivering the service product. The third level is that of the market communication of the service offering as in its absence the augmentation service package does not have any relevance to the customer.

5.3 PACKAGING OF SERVICES

The ‘package’ concept of service product suggests that what you offer to the market is a bundle of different services, tangible and intangible, but there is a main or substantive or ‘core’ service and around it are built the auxiliary or peripheral or facilitator services. It is

important to note that facilitating services are mandatory and if these are left out, the entire service would collapse, although, there are other types of services in the service package, called supporting services. The basic difference between the two is that supporting services do not facilitate the consumption of core services, but are used to increase the value, and, thus, differentiate it from competition.

For example, in a 200-rooms hotel the core service is lodging and room service. Bellboy services are facilitating services and health club, car rental are support services. However, it may not always be possible to draw a line of distinction between facilitating and support services. For example, in a typical city hotel, business centre might be the support service, but in a business and convention hotel, the same service would be facilitating service. Nevertheless, while developing the service product package, it is important to consider all the three levels of service: core, facilitating and supporting. Accessibility of the service, interaction with the service organisation and consumer participation is also integral elements. The basic service package is not equivalent to the service product the customer perceives, which is, in fact, based on customer's experience and evaluation. Therefore, there is a need to involve the customer in the production of service offering and thereby reinforcing that the basic service package has to be expanded to a more holistic model of augmented service offering. Hence, it may be suggested that issues related to the accessibility of the service, interaction with the service organisation and consumer participation are also to be integral elements of the service product. The details of the augmented services offering are summarised in Table 5.2.

Table 5.2: Elements of Augmented Service Offer

Accessibility of Service	➤	Number and skills of personnel
	➤	Working hours and time used in performing various tasks
	➤	Location of service outlet
	➤	Exterior and interior of service outlet
	➤	Infrastructure, hardware, documentation
	➤	The number and knowledge of consumers simultaneously involved in the process.
Interaction with service organisation	➤	Interactive communication between employees and customers.
	➤	Interactions with the physical and technical resources of
	➤	The organisation needed in the service production process
	➤	Interaction with other customers involved in the process.
Customer participation	➤	How well is the customer aware about the process of service delivery and his or her role
	➤	How well is the customer prepared to share information
	➤	How well is the customer willing to share information or use service equipment.

Source: This table is based on Christian Gronross, Services Management and Marketing (Toronto: Laxington Books 1990), pp 76-80.

In the formulation of a sound product mix, it is important that the organisations also think about developing a sound package because it is not possible to develop the new product frequently and moreover, it is not a commercially viable. The term packaging focuses here on the formulation of an effective mix of different services and schemes, which is efficacious in attracting the customers/users. We can't negate that the development of an effective or attractive package requires professional excellence and therefore, the executives serving an organisation bear the prime responsibility of understanding the preferences of customers/users and to design a package in tune with their changing taste and temperament. What the package should basically be or do for the particular target is found significant. We are aware of the fact that a number of schemes and services are

included in the service mix and it is quit natural that all the customers do not prefer all the services. This makes it essential that the executives have an in-depth knowledge of the changing needs and requirement of customers / users of different segments. The motive is to influence them the tourist organisations, the banking organisations, the transport organisations and albeit others are found developing a package to tap the market potentials. The importance of packaging thus can't be undermined considering the functions it performs in attracting and satisfying the customers. In addition to other aspects, we also find it instrumental in creating the market potentials since a number of users/customers take a positive decision being influenced by the outstanding properties of a package. The executives here bear the responsibility of making the package attractive and competitive. This necessitates a study of the emerging competitors, identifying the properties of their package, under-standing the preferences of customers, incorporating the necessary changes in the package and offering the same to the customers in a decent way and at the right moment.

The service generating organisations with a sound package may attempt to motivate the customers. They are supposed to establish an edge over the competitors and this requires world-class professional excellence. The combination of different services, schemes in one package act as a motivation tool, if the professionals perform it intelligently. The main thing is to make the package attractive vis-à-vis competitors. It is right to mention that an ideal package succeeds in minimizing the promotion budget. We accept the fact that the task of selling is found more difficult to be more specific when the market is found competitive. The professional excellence of executives plays here an incremental role. At the same time it is also impact generating that services generated and offered are of world class, which succeed in establishing an edge over the services of competitors. This makes it essential that the professional's show their excellence in adding attractiveness to their service mix. In a true sense, the customers don't buy the goods or services or the core product but the package or the benefits of the package made available to them. The service generating organisations work with two objectives: conveying the benefits of the core services and projecting a product difference with the services offered by their competitors.

Thus, the main task is to make the services attractive. It is against this background that the service-generating organisation needs to devise ways that how and in what way the services included or to be included in the mix can be made attractive. Strategically, the core services are the prime benefit that the customers seek from the provider. The core service often becomes a commodity as a service industry matures. The customers expect that the service generating organisations are sound enough to provide the world-class core services for which they are charged. The result is that the peripheral services often become the way through which we inject attractiveness to our services and scheme and thus succeed in winning the heart of customers. The more attractive the services we offer, the more easy the process of sensitizing the prospects/customers. We should not forget that the key dimension to service quality is reliability, which is the ability to perform as promised. It is also responsiveness, which is meant the willingness to help customers and to provide prompt service. It is security, which is meant freedom from risk. It is a combination of a number of benefits, which is meant product attractiveness.

It is a combination of a number of benefits, which is meant as attractive package. Thus the task is to make the services attractive and this is possible when we make our services different to others by incorporating the outstanding properties. It is in this context that we focus on some of the properties or features helping the organisations substantially in making the services attractive vis-à-vis competitive. In addition to above, there are some considerations, which may be followed for the service attractiveness in terms of service offering or a sound package of services.

Enrich the peripheral services: We find a number of service generating organisations concentrating on the core services resulting from which we find the peripheral services neglected. The organisations enriching their peripheral services thus succeed in attracting the customers. This makes it essential that the service generating organisations make innovative efforts to enrich their peripheral services and simplify the task of winning the heart of customers.

Understanding the service quality expectations: In almost all the service generating organisations, we consider it to be an important force to sensitize the impulse of customers/prospects. The expectations of customers can't re-main static. The innovative services of the leading organisations help in shaping and reshaping the expectations, which change the perception of standard specification or quality. It is impact generating that the professionals bear the capacity of understanding the expectations and making efforts to improve the quality. Like the goods manufacturing organisations, they are also required to promote the principle of 'making things happen', which advocates creating a quality-gap by speeding the process of innovation. Innovation makes the ways for attraction.

An overriding priority to the behavioral profile: Making the services attractive is an art that in addition to the quality that you develop also required decent way of offering the services. This makes it essential that we assign due weightage to the behavioural profile of customers and intensify efforts to make available to the providers an in depth know ledge of behavioural management. Of course, a majority of the service generating organisations hardly incorporates this dimension of the mix while offering the services. There is no doubt in it that you bear the responsibility of offering the world class services but at the same time you are also supposed to offer the same in a decent way. Your behaviour, dialogues, approaches, attitudes and empathy play an incremental role in transforming the negative into positive. May be that your customers are aggressive, short tempered; may be that regulations and laws are making your task a bit difficult but you should not forget that your behaviour while dealing with the customers occupies a place of outstanding significance.

Take the support of information technologies: Being a professional, you bear the responsibility of making your service mix attractive and this makes it essential that you promote the use of technologies helping you in serving the customers/users fantastically. The well established service generating organisations have been found using technologies for different purposes, such as billing machines, computers for filing and documentation, tele-marketing to make the services convenient, credit-debit machines used by a few of the banking organisations, ATMs by the banks for fast services or so. By using technologies,

they serve the customers in many ways and at the same time also keep their records crystal clear. The use of fax machines, e-mail, Internet services help them substantially in dealing with the large-sized customers. We can't deny the fact that the use of technologies simplifies your task of building and projecting a fair image.

Product for all: Of late, we find nucleus marketing gaining popularity in the business world. We talk about the attractiveness in the services offered. The service mix should assign due weightage to the customers of different age groups and both sexes representing a family. If some of the services are for youths, we also find some of the services for kids and teens. If some of the services are for women, we also find some of the services are for men. If some of the services are for women, we also find some of the services for poor sections. Thus you promote the concept of nucleus marketing and get an opportunity to tap the available total market potentials. It is essential that you are well aware of the changing needs and requirements of the different sections/ segments and formulate a service mix that serves the interests of all.

The aforesaid properties if incorporated in the service mix in terms of advertising would provide ample profitable opportunities to tap on. Your services would be distinct to your competitors and the customers would conveniently be motivated. Attraction simplifies promotion. The service mix is found instrumental in informing, sensing and persuading the potential customers. The marketers bear the responsibility of using the different components of promotion in such a way that the measures adopted for promoting the goods or services are found productive. The promotion communicates to customers' information on the other elements of marketing mix, such as product, pricing and place. The advantage of product itself, details on the place through which it is sold and details on the pricing are transmitted through promotion. We can't negate the fact that more creative the promotional measures, more proactive we find our sensitising efforts. Creativity is found to be an integral part of communication. It is against this background that we find even the services generating organisations very much instrumental in using the different components of Sales such as Advertising, Publicity, Word of mouth promotion, and Telemarketing

5.4 BRANDING IN SERVICES

To avoid the consequences of a commodity classification, service firms use branding to assure the consumer they will receive uniform service, the quality of food and service provided at Burger King tends to be the same across all locations. Consumers know what to expect regardless of which outlet they patronize. Because consumers know what to expect, in new situations they will often choose a Burger King or other brand name fast-food facility rather than choose a local firm with which they have no experience with. For service firms, branding provides value by enhancing the efficiency and effectiveness of the marketing programs. Brand loyalty and repeat purchase leverage their positions through brand extensions, higher prices, and higher margins. A highly established brand name can provide a firm with a strong competitive advantage. Holiday Inn was the first to introduce a brand name to the hotel industry. The brand name was a major reason for Holiday Inn's tremendous growth. It allowed the Holiday Inn to transform a commodity type service into differentiated service. To maximise the benefit of a brand, service providers should meet the following characteristics:

- The brand is distinctive.
- The brand is relevant
- The brand has a tangible quality.

The company's most important services are branded and linked. In branding, a company must decide if it wants to use a single brand or multiple brands. The primary reason for using a single brand name is to capitalize on strong brand name that will demonstrate consumer preference. As the low end of the hotel segment are single brand firms such as Motel 6, Red Roof, etc. at the high end are single brand firms such as Hilton, Hyatt, etc. In the middle segment are firms such as Quality Inn, Holiday Inn, etc. As services are not physical objects, they cannot be touched, seen or smelt. Physical goods can be touched, seen, tasted, smelt or heard before they are bought. We can market services by emphasising the benefits and the satisfaction offered. Service itself cannot be a primary object of promotion. Credit cards per se are useless pieces of plastic. However, the power to buy a variety of things at 90,000 different establishments with this piece of plastic makes it a useful product. Services carry with them an array of perceptions. It is an abstract concept.

However, there are always some tangible elements, which enable us to evaluate services, e.g., in a flight, the tangible elements are the experience at the airport, on-board services and the in-flight entertainment. But these are not comparable to a TV set or a suit where the total product is seen. As services are abstract, they are given reality through tangible elements, e.g., a law firm is evaluated on the basis of its turnover, size, track record, and location. All these elements create a brand image. Further, these are intangible elements are associated with service brands; these brands tend to be commoditized. Service brands are made tangible so as to make their perception consistent and common amongst consumers. The tangibility is imparted by using as many physical elements as possible which could be associated with the brand, e.g., staff uniforms, ambience, interior decor, music when customers are on hold, use of colours, stationery, brochures, pack-ages, design of physical facilities. These elements must be consistent with the service. There should be a holistic approach; Physical evidence must go well with the brand, convey a consistent message, and appeal to the target audience. We should seek the additional opportunities to provide physical evidence for the service.

Service Brands and Manpower

Services are represented by the manpower. In so many cases, they are the only point of contact for the consumer. If the staff is properly trained and well behaved, the chances of the service brand being successful are greater. Service quality is influenced by the following factors related to the manpower:

- Appearance: Elegantly dressed staff is a must for the service brand. Shabbily dressed staff cannot sell high profile services.
- Responsiveness: Manpower should be sensitive of the needs of the consumers. In a cinema hall, a family can be given corner seats.
- Assurance: If there are snags, the manpower courteously informs the consumers and also informs them about the steps being taken to rectify the problem.
- Empathy: A crying child is given a chocobar in a restaurant. Manpower tries to comfort the child, and of course, the family and fellow customers too.
- Reliability: Track record is built by providing reliable service. Manpower who is satisfied on the job leads to consumer satisfaction. 'Staff motivation is an area

which requires utmost managerial attention. Right from manpower planning to selection to supporting and retention of manpower, the personnel aspects do go a long way in developing the right service brand. Customer service should become the second nature for all employees. Such an organisation culture cannot be created overnight, but it is worth the effort to accept the challenge.

Service Brands and Consumer Participation

Consumer participation greatly influences the perception of a service brand. A particular swimming pool may be very good, but a person whose experience with the swimming coach is not good, may complain about the quality of the swimming pool itself. There are different degrees of consumer participation. There is low participation in restaurants and air flights. Here the consumer's presence is necessary, and the service personnel render the whole service. Even courier services have low consumer involvement. Consumers rarely see their infrastructure. They interact telephonically with the courier company for a short while. We can provide standardized offerings of such services. The procedures are well defined. In the financial sector, the participation is limited, say in a bank branch, consumer is expected to fill in a pay in slip while depositing cash, and tender the cash across the counter, and get back duly stamped acknowledgement. But the bank staff does the major portion of work. But in a health club or business management school there is higher level of consumer participation.

They take active part in a weight reduction programme. They hold themselves responsible if the results are not satisfactory. They are very happy when the service provider tries to solve the problem. Because of high degree of participation, organisations design customized offerings for the consumers. Consumer participation is also an educative process. A consumer must master telephone banking or mobile banking before getting its benefits. Even Internet banking is a participative process requiring effort on the part of the consumer. But consumers gain benefits on account of such participation, e.g., utility bills can be paid through Internet from anywhere.

5.5 ADVERTISING OF SERVICES

Service firms have several meanings of promoting their firm. 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 capitalise 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.

Guidelines For Selling Services

There are some guidelines those may be followed by service organisations. First, the service salesperson should develop a personal relationship with the client. Generally, it is the personal relationship rather than the service itself that results in satisfaction or dissatisfaction with the service. If there is a distinct need for a high quality personalised service, then one must pay more attention to its organisational structure. Second, one must adopt a professional orientation, as the key to most service transactions is the buyer's confidence in the seller's ability to deliver the desired results. It is, therefore, important that

a service salesperson must make a strong impression of competency, honesty and sincerity. Third, service sales personnel has to use indirect selling techniques, as what he/she is promoting is intangible. This can be done either by creating a derived demand or by playing the role of buying consultant. Most hotels first sell the location and then their hotel to the customer. Fourth, they have to build and maintain a favourable image. The public opinion plays a very important role in marketing a service; therefore, managing word-of-mouth publicity is important. And lastly, a service seller sells services and not a service. At any given point of time, a service seller is dealing with a host of services rather than one. Their thoroughness on each and ability to package them to suit each customer's needs would determine the success. In other words, the ability of seller to customize the service offering is very important.

Guidelines For Public Relations and Publicity

In certain service industries it is not possible to use the conventional promotion tools with success. For example, in advertising industry, mass media advertising is really rare. There are some services where the size of the operation is not large enough that one can afford heavy promotional budgets. There are others who cannot afford to cope up with their existing workload. There are still others who find it difficult to advertise or promote as it might lead to a bad taste. For example, a hospital might find it very difficult to promote abortion services. Similar could be the case for open-heart surgery or other services. Arising out of these reasons, the conventional promotional tools have a limited use. Duncan suggested that the services sector industries have to think about other promotional tools like public relations and publicity. There are very successful examples like a medical doctor specializing in eye care running his own clinic-cum-nursing home and organizing free eye camps all over the region. This community service not only spreads his name but also proves his competence. The local newspapers might carry stories about such camps to give further boost to the promotion. Therefore promotional activities like community relations, event management, media blitz, corporate identity programmes have relevance and they should be used innovatively and effectively.

Suggestions For Advertising Strategy

The service generating organisations also need to advertise carefully after considering the following points:

Finalizing the advertisement budget : The involvement of finance is an important consideration and any organisation either producing goods or generating services can't undermine it. They need to formulate a pragmatic budget so that the financial constraint is not to aggravate the problem. It is very natural that the scale of business of an organisation would be a dominating factor while designing the advertisement budget. The professionals are supposed to know about the budgets of the leading competitors and to incorporate necessary changes felt essential to make the advertisement attractive and informative. They are also required to know the stages through which their services or schemes move. This would help them in rationalising the financial requirements.

Selecting a suitable vehicle: Another consideration that requires due attention of the professionals is the suitability of vehicles through which the advertisements regarding the services product move. There are a number of devices to advertise such as print media, broadcast media and the telecast media. The nature of product, intensity of competition, the quality of target market, costs, etc., are some of the considerations to be given due weightage while selecting a medium. The involvement of cost and the rate of sensitivity in different media can't be uniform. They can't negate that telecast media is found very much effective but at the same time very expensive. All the organisations can't make a provision for TV advertising. The broadcast media has a big network and some of the organisations also prefer to advertise through Radio. It is right to mention that the broadcast media is found economic but not very much effective. To be more specific for the service generating organisations, we find print media suitable since it is economic as well as effective in throwing a positive impact. The organisations requiring more space for placing the message find the print media suitable. The professionals need to select a suitable vehicle depending upon their potentials and requirements.

Using creativity: It is important to mention that promotion without creativity carries no meaning. Creativity helps in making the message more attractive and enhancing its impact. The messages, appeals, slogans are instrumental in attracting the customers. Of late, there are a number of advertising agencies where world-class professionals use creativity to develop great advertising campaigns. The creativity in advertisement would substantially

simplify the task of professionals since the persuasion process would be found proactive.

Testing the effectiveness: It is only not sufficient that we advertise. It is much more impact generating that our advertisements are effective. This is meant we are getting a profitable return for our investments in advertisement. The messages, slogans, appeals continue for a long time and the persuasion processes are found instrumental in trans-figuring the prospects into customers. Our focus is here on the life expectancy of advertisements. We can't deny that creativity and sensitivity make the ways for effective advertising.

Instrumentality of executives: The executives bear the responsibility of advertising locally at micro level. They are supposed to have in-depth knowledge of local market and target population. Of course, we find a budget at apex level or at macro level but provisions at micro level are found very much productive. If we talk about the cause related marketing the professionals working locally know about the local events, customers, prospects problems or so. How to influence the local population for getting a positive response? The professionally sound executives can make it possible.

Characters and themes: The sensitivity of advertisement is considerably influenced by the characters, themes, and events; selected for advertising. It is essential that while advertising, the professionals know about the characters and themes.

5.6 SUMMARY

In service organisations also it has been observed that their 4Ps are equally relevant, however, with a difference in terms of the offering, advertising, branding and packaging of services. For example, services are intangible, therefore the 'product' issues relate to bundle of 'core', 'facilitating' and 'support' services. Promotional issues are also unique in service industries and typically public relations take a front seat, while advertising is more of 'corporate advertising'.

5.7 KEYWORDS

Packaging: Formulating an effective mix of different services and schemes.

Branding : The process of assigning a name to a service.

Advertising: Non-personal form of communication about a product / service / person or idea by a clearly identified sponsor directed at a specific audience.

Publicity: Non paid media coverage of commercially significant information about a company or its products.

5.7 SELF-ASSESSMENT QUESTIONS

1. “Since services are intangibles, they cannot be branded.” Comment on this statement.
2. What steps may be considered for advertising campaign for service? Explain.
3. Think about some of the services that you use frequently, for example, restaurant or outdoor catering. From the lowest end eating out joint to the most exclusive restaurant you visited, identify how the advertising and packaging of these services are expressed. How does the package reflect the other elements of the total service offer?
5. Enlist those services in which there is non-price competition. Identify reasons, thereafter, for non-pricing strategies in these services.
6. If you are the chief of marketing planning for Lucky’s outdoor catering service (to be launched), what steps would you consider in developing this product offer and why?

5.8 REFERENCES / SUGGESTED READINGS

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LESSON: 6**EXTERNAL AND INTERNAL MARKETING**

Subject: Marketing of Service

Paper Code: MM-411

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STRUCTURE

- 6.0 Objectives
- 6.1 Introduction
- 6.2 External marketing
- 6.3 Components of external marketing
- 6.4 Themes of external marketing campaigns
- 6.5 Internal marketing
- 6.6 Roles of a service employee
- 6.7 Components of internal marketing
- 6.8 Summary
- 6.9 Self assessment exercise
- 6.10 Suggested readings

6.0 OBJECTIVES

After studying this lesson, you will be able:

- To learn about the interaction of the service organisation with the target market.
- To understand the decision areas in designing communication programme.
- To learn about the critical role of employees in service organisations.

6.1 INTRODUCTION

The unique characteristics of services; intangibility, inseparability, variability and perishability make them different from goods. Therefore, it is imperative for marketers to address the service issues in a different manner. In service marketing, apart from external marketing (i.e., the efforts of the marketers directed at the final consumers that are in form

of marketing mix – 7 Ps) two more marketing strategies namely internal marketing and interactive marketing are used. Interactive marketing focuses on managing the interaction of the service organisation with the customers because the customer satisfaction depends as much on interaction as on what service is delivered to them. Whereas internal marketing encompasses the service organization's efforts directed at the employees because customer satisfaction depends upon employees satisfaction. External marketing includes all such communication campaigns by the service organisations that inform, educate, persuade, train, and influence the customers to purchase services. Internal marketing emphasizes that employees are critical resource for any service organisation, who determine the future of enterprise by achieving organisational objectives. It is essential to understand and satisfy the needs and wants of the employees in order to serve the consumers better.



Service Marketing Trinity

6.2 EXTERNAL MARKETING

The objective of external marketing is to attract every customer to participate in the service process. All consumers are over exposed to marketing communication. Service companies

should design an effective promotional campaign to inform, educate, persuade, train, and encourage buying and experiencing the service offered. Consumers do have certain service expectations. Managing these expectations is one of the major purpose of external marketing. 'Services promised' in external marketing should be delivered effectively. Developments of promotional mix strategies are vital to the success of external marketing. The most powerful media in services is word of mouth communication. Service organisation should be careful of negative word-of-mouth. In the absence of relevant and effective communication, consumers may have doubts and suspicions about the service offering. Campaigns through appropriate media provide customer with evidence. Service quality depends, to a large extent, on the ability and effective participation of customers. Participation ability, skill, involvement, etc. of consumers depend upon the way they are informed, educated, and trained through external marketing.

6.3 COMPONENTS OF EXTERNAL MARKETING

External marketing in services is popularly known as promotion in traditional marketing. There are five major components of external marketing:

(i) Advertising: It is any kind of paid, non-personal method of promotion by an identified organisation or individual. The role of advertising in service marketing is to build awareness of the service, to add to customer's knowledge of the service, to help persuade the customer to buy, and to differentiate the service from the other service offerings. Relevant and consistent advertising is therefore, of great importance to the success of the marketing of the service. Advertising has a major role in helping deliver the desired positioning for the service. Since the core product is intangible, it is difficult to promote and service marketers therefore, frequently choose tangible elements within the product for promotion. Thus, airlines promote the quality of their cuisine, seat width, and the quality of their in-flight services. Certain services such as entertainment, transportation, hotel, tourism and travel, insurance, etc. have been advertising heavily in newspapers, magazines, radio, TV to promote greater usage and attract more customers. However, certain service professionals such as doctors and lawyers rarely use advertising as a means of increasing

their clientele. But, this situation is changing and one can occasionally see an advertisement in the newspapers giving information about the location and timings that a particular doctor is available for consultation. These advertisements may also carry the message 'Honorary doctor to the president of India' or ex-director of a prestigious medical college, etc. Such messages help create a positive image and credibility.

(ii) 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.

(iii) Sales promotion: 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.

(iv)Publicity: It is unpaid for exposure which is derived by getting coverage as a news or editorial item. It is possible to get publicity when the service offering is unique and, therefore, newsworthy, by holding a press conference in which offered services can be associated with some issues of greater social relevance or by involving the interest of the newspaper or its staff in covering the service. The important point about publicity is that the choice of medium should be correct. The vehicle which is chosen must be credible and enjoy a reputation of being trustworthy. A wrong choice of media vehicle will result in adverse publicity.

(v) Word of mouth: One of the most distinctive features of promotion in service businesses is the 'word of mouth'. This highlights the importance of the people factor in services promotion. Customers are often closely involved in the delivery of a service and then talk to other potential customers about their experiences. Research points to personal recommendations through word of mouth being one of the most important information sources. Where people are the service deliverers personal recommendation is often the preferred source of information. Thus, word of mouth can have a more important impact than other promotion mix elements in a number of services, including professional and health care services. Positive or negative word of mouth communication will then influence the extent to which others use the service. However, negative experiences tend to have a greater impact than positive experiences. Customers who are dissatisfied tend to tell more than twice as many people of their poor experiences as those who are satisfied relate good experiences.

Each of these components of external marketing has distinctive capabilities and also limitations of suitability. The major task for service marketers is to design a proper mix of it. The effectiveness of external marketing depends upon how effectively the mix of components is designed.

6.4 THEMES OF EXTERNAL MARKETING CAMPAIGNS

Service organisations need to focus on the different themes of external marketing in order to achieve organisational objectives. The important themes are given below:

(a) Information: Information relating to the service offering package will be the focal theme in different situations. When a service company introduces a new or modified service; or introduces the service in a new market through a new channel; or introduces change in marketing mix, information becomes the central theme of the communication programme.

(b) Education: customers need to be educated properly before they participate in service production and consumption. In service organisations production and consumption are simultaneous, so educated customers may help in improving service quality. The educational theme aims at managing service promises and influencing consumer expectations of the service. The management of service promises involves coordinating all promises made by the company and the employees in order to ensure that execution is consistent and feasible. Service organisation should make only realistic promises. It is necessary to offer service guarantees in order to strengthen the organisation's stand on the service promise. In case of any deficiency or failure in service, the company should assure compensation on the loss suffered by the customer. Innovation is a continuous process in services. The changes brought in the service package and process need to be communicated to consumers, otherwise there may be a danger of misunderstanding between the company and customers.

'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.

(c) **Persuasion:** Persuasive communication aims at influencing the decision making process of consumers. By showing the reasons for preferring a service and particular service provider, as well as the special benefits and values to consumers, service organisations persuade the target market to become the customers of the organisation. Persuasive communication is used against the defensive or offensive approaches of competition.

(d) **Reinforcement:** This aims at developing loyalty among the customers. It focuses on the credibility, reliability, and continuity of all the quality factors and gives an assurance to the target market that they can have similar or better experiences by using the service. Reinforcement reduces cognitive dissonance among consumers. It supports and strengthens the earlier decision of using a service and encourages consumers to continue with the same service.

(e) **Training:** In services, production and consumption are simultaneous and consumers are co-producers. The expertise and involvement of the service provider coupled with the expertise and involvement of the consumer in service production process results in better service quality. Service organisations cannot expect all consumers to have the ability and expertise to participate in service production process. Service organisations are responsible for training the customers. They are the joining phase, production process phase, and detachment phase. The series of activities the consumer has to pass through and the activities he has to perform need to be communicated and proper assistance provided to ensure that consumers are performing their tasks affectively. Designing consumer support systems and training customers to access such systems is an important dimension of service communication programme.

(f) **Efficiency:** Service organisations may choose several parameters to communicate their efficiency. The growth achieved over a period in market expansion and networking, the loyal consumer network, the success percentage in service, the relationship networking with other services, and the size and strength of the corporate group in the economy are some of the themes used to communicate efficiency.

(g) **Leadership:** A leader can attract better prospects. Leadership positioning, either in terms of market share or innovations, creates a solid position for the organisation in the market. Thus theme can be undertaken only by leaders either at the corporate level or at the local level.

(h) **Relationship:** Service organisations are taking up special programmes for building, maintaining, and enhancing relationships. The theme focuses not only on customer retention but also on turning each customer into a brand ambassador and an indirect sales personnel of the organisation.

(i) **Image building:** A company cannot buy its image overnight. It has to build it over a period of time through service excellence. Image building programmes are essential for service organisations because the image influences customer's perceived quality.

(j) **Price v/s Quality:** The price v/s quality communication programme focuses on attracting different market segments. It also motivates consumers to compare the price-quality offerings of the company with the competitive offerings. The campaign helps customers to choose a service that suits their economic conditions and develop expectations accordingly.

6.5 INTERNAL MARKETING

Internal marketing is a term commonly used to describe the programmes necessary to instill and maintain a strong service mentality throughout the organisation. For every service, employees remain the primary ingredient of success. A survey of consumers found

that the most common definition of quality for service was employee contact skills such as, courtesy, attitude, or helpfulness. The importance of employees in marketing of services is well recognized and captured in the 'people' element of the marketing mix. It is a well proven fact that only satisfied employees can deliver quality services to customers. Employees should be fast and efficient at executing operational tasks, as well as courteous, and helpful in dealing with customers.

Internal marketing is a management strategy that focuses on how to develop customer conscious employees. Employees must be skilled, have customer orientation and be service minded so that they can influence customer perceptions positively in interactions during production, delivery, client handling, technical service, and other related activities. According to Christian Gronroos, the concept of internal marketing states that the internal market of employees is best motivated by an active, marketing- like approach, where a variety of activities are used internally in an active and coordinated manner. The purpose of internal marketing is to integrate multiple functions of the firm and operate the service firm as holistic management process. It ensures that all employees understand and experience various business activities and campaigns and are also prepared and motivated to act in a service-oriented manner. The necessary condition is that the internal exchange between the organisation and its employees should operate effectively before facing external markets.

The marketing goal of every service organisation is to achieve customer satisfaction and customer retention. Research studies have proved that the marketing goal can be achieved only when employees are satisfied. Hence, service organisations should study employee expectations, and gear up the policy framework to satisfy them. Employee satisfaction will not only increase employee productivity but also result in employee retention. The performance of a satisfied employee results in customer satisfaction and the satisfied customer becomes loyal to the service organisation. A loyal customer base increases revenue as well as profitability of the organisation. Therefore, employee satisfaction has a chain of positive effects to the service organisations. Employees of service organisations

are also known as ‘boundary spanners’ because they operate at the boundary of the organisation. They have to interact with external environment as well as internal environment. Frontline employees require extraordinary ability to handle interpersonal and inter organisational conflicts. While participating in service encounters, they need to be cheerful, make eye contact, show interest, and engage in friendly conversation with customers. The performance of this service function requires the emotional involvement of the employees. Internal marketing programmes have three important purposes. First, they guarantee that all employees have a firm understanding of the structure of the business, its mission, and its customer-orientation. Secondly, these programmes should be designed to keep employees motivated and suitably trained to act in service-oriented ways. Finally, they can be very helpful in attracting and keeping good employees.

6.6 ROLES OF A SERVICE EMPLOYEE

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.

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.

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.

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

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.

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.

Empathiser: 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.

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.

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.

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.

6.7 COMPONENTS OF INTERNAL MARKETING

Internal marketing is a philosophy of managing personnel and developing and enhancing a service culture systematically. The activities of internal marketing should promote service-

mindedness and customer orientation. Most of the internal marketing activities are part of human resource management and development. A combination of management and development strategies are needed to ensure that right kind of people are entrusted with the right kind of jobs. They must have customer orientation, service mindedness and the capacity to stay motivated to perform services. There are eight major components of internal marketing:

(a) Staffing- A proper assessment of what kind of people are required and how many is the starting point in human resource policy of any service organisation. The three important issues in staffing are manpower planning, recruitment and selection.

Manpower planning. In service business, manpower often becomes the core competence for companies. To build the organisation with competent personnel, it is necessary to have proper manpower planning. Besides planning the right size of employment at various service points, manpower planning ensures that the right people occupy right positions. It also develops supplementary plans for manpower expansion and contraction, according to demand fluctuations.

Recruitment. In order to get the right people, organisations should know who the best people are, where they are available and then compete with other organisations to hire them. It suggests that the traditional approach of recruitment such as advertising for posts and calling applications may not be suitable or sufficient. Other recruitment ideas, such as campus interviews at reputed universities and institutions, career fairs and encouraging current employees to identify potential employees can be used. Service firms should be prepared to spend time, energy and money to get the best people. It can be said that spending money and time is worth it when finding a right person, rather than losing crores of rupees because of the entry of a wrong person in the organisation.

Selection. Service competencies include skill and knowledge of the employees. Some services do not require knowledge and skill in a specific discipline, or trained people may not be available. In such cases, the companies have to prescribe minimum qualifications and identify those who have the best credentials. A proper selection process needs to be

designed. The selection process may vary according to the needs of the service organisation.

Besides finding qualified people, it is necessary to examine whether they have an inclination to the service or not. People in service firms should possess an aptitude and willingness to serve. The attitude towards the service job and orientation to serve people are important criteria to test. Although all the applicants for service jobs may have some level of service inclination some will be more service driven. Such people must be spotted and selected for the service. The employer should look for people who have both the qualifications and the inclination. A variety of tests and interviews may be designed to identify the right candidate for the job.

The ability to attract the right people depends upon, among other things, the image of the organisation as an employer. The internal marketing efforts, the satisfaction of the existing employees, the employee turnover, the growth prospects of the firm and career prospects of employees are some of the measurement points used by the people to join an organisation. Therefore that ensures employee prosperity.

(b) Training- Service firms may have a training system and infrastructure or may hire a specialist organisation for its training needs. Training employees on relevant aspects is an absolute necessity for service firms. Gronroos has identified the following three kinds of training tasks:

- Developing a holistic view of how a service strategy works and what is the role of each individual in relation to other individuals, functions within the firm and relations with customers.
- Developing and enhancing a favourable attitude towards a service strategy and part-time marketing performance.
- Developing and enhancing communication skills and service skills among employees.

The training programme should aim at basically three important skills for employees. They are:

- Technical skills relating to job specification and expected role performances.
- Interactive skills relating to providing courteous, caring, responsive and empathetic service. It includes communication, listening, problem-solving and interpersonal skills.
- Social skills relating to building personal relationships and recognising and treating regular customers differently.

Training in service organisations should not be limited only to new employees. It should be an ongoing process. The ever changing market environment necessitates change in service organisations and the need for improved service skills. Continuous training is important for firms to offer better quality service.

(c) **Organising:** Employees of service organisations need to be organised properly to achieve better results. The following are the four important dimensions of organising employees:

Work assignment- Classification of service jobs and assigning them to such personnel who have the capability as well as willingness to serve is a critical task. The qualities, qualifications and interests of the employee have to be thoroughly assessed before assigning a service job. A wrong assignment not only makes the service a failure, but also causes loss of customers. There is a lot of difference between handling a job and handling a job efficiently. Consumers normally possess the ability to perceive the difference in handling.

Empowerment- In service production and delivery process, frontline employees have to assess the exact needs of the customer and develop a customized service product. To perform these activities on the spot effectively, frontline employees need to be empowered. According to Zeithaml and Bitner, “Empowerment means giving employees the desired skills, tools and authority to serve the customer”. The key factor in empowerment is delegation of authority to allow employees to take decisions relating to interactive marketing. Empowerment makes the employee feel free in attending to unpredictable activities with customers, motivates him to modify the process and also makes him an innovator. Minor improvements are capable of attracting major responses from customers. Frontline employees can be the major source for developing minor improvements in service processes.

Service culture- Culture is a broad term that reflects the norms and values of a society. Culture explains why people do certain things, think in common ways, and appreciate similar goals, routines, even jokes, just because they are members of the same organisation (Gronroos). Devis defined corporate culture as the pattern of shared values and beliefs that give the members of the organisation meaning, and provide them with the rules for behaviour in the organisation. A strong corporate culture empowers the people to act in a specific manner and to respond to various stimulations in a uniform way. A strong service-oriented culture in an organisation gets easily picked up by new employees. The existing employees help by sharing the norms and values. On the other hand, a weak corporate culture creates an insecure feeling for the new incumbent of the organisation. He or she may be under confusion as to how to respond to various cues and how to react in different situations.

A service culture cannot be developed overnight. Continuous and sustained efforts of the management over a period of time in designing work environment, human resource policies and efficiency of execution will naturally result in the development of a service culture. Good culture once developed becomes the core competency of the organisation.

Team work- Customers often perceive better experiences when employees work together as teams. Due to the nature of service jobs, which is sometimes frustrating, demanding or challenging, team work reduces the stress and strain of individual employees and helps them to maintain enthusiasm in work. Team work should be developed and promoted. It may require restructuring the organisation to develop market-based grouping. Creating teams and supporting effective team work, especially across functions, is important. There are many barriers and obstacles to overcome while implementing such strategies in most traditional organisations. However, if this exercise is done well, the benefits to both employees and customers will be tremendous.

(d) Supporting- Service employees need support systems to be efficient and effective in their jobs. The quality of service provided will be greatly dependent on the adequacy of support systems. A medical practitioner requires a system that provides information relating to the patient, testing facilities, equipment to handle and support services, to perform effectively. Similarly, a professor requires a good library, teaching aids, supply of student information and feedback, secretarial assistance to develop notes and reading

material and facilities to counsel students, in order to perform well. Therefore, service firms should design effective support systems for their employees.

Basically, service employees require two types of support-technical support and process support.

Technical support. The quality of the work by the employees gets enhanced with the support of technology and equipment. Tools, machines, other tangibles and systems provided to the employees not only increase speed and accuracy but also provide comfort and convenience in service performance. The EPBAX system, computerization and other instruments in a service outlet would certainly provide convenience to both employees and customers. A teacher's classroom performance would be greatly influenced by the quality of support systems such as audio visual equipment, multimedia system, supply support of material to the students and the like provided to him.

Process support- Support services are necessary to service employees and customers for their efficient functioning in service production as well as consumption. Secretarial assistance, documents, information networking, communication system, mobility, scheduling and routing, will influence the performance of employees and customers in the service process.

(e) Motivating- Employee motivation is the key element for internal marketing. Employee motivation is particularly significant in services because of the human impact on buyer-seller interactions. Employees are often required to respond to new situations, unforeseen or even awkward to them. A motivated person alone can handle such situations properly and, thus, build the reputation of the organisation. What motivates an employee to perform quality service and to continue with the service organisation is the question for which the management has to search an appropriate answer. There are two important issues the management has to take care of particularly in motivating employees. They are promotions and treating employees as customers.

Promotions- Every employee looks for improvement in rank within an appropriate time span of his career. If an organisation does not provide opportunities to move forward in their careers, employees get frustrated and de-motivated. If they find opportunity get

frustrated and de-motivated. If they find opportunity elsewhere, they will quit the organisation. Service companies should realise the need for creating promotional opportunities for employees. If promotion is purely given by merit, the management can create a healthy competitive environment among the employees and motivate them to perform better.

Treating employees as customers- The basic concept of internal marketing propagates the theme of treating employees as customers. Employee-employer relations play a vital role in service performance. The management need to understand the needs and want of the employees and offer value satisfaction to them, only then the employees may be expected to give their best to the organization and are likely to stay with the organisation. An organisation can become the best place to work if four important principles are followed.

- (1) Treating employees as customers
- (2) Involving employees in decision making
- (3) Ensuring employee satisfaction and
- (4) Benchmarking and incorporating the best practices of human resource management.

In order to design programmes to satisfy the needs of employees, internal research and employee segmentation are useful approaches. Advertising and other forms of communication directed at employees can also increase their sense of value and enhance commitment to the organisation.

(f) Evaluating- Evaluation of performance of the employees is vital in internal marketing. It is necessary to develop systems that measure the performance of the employees.

Feedback to management- Management of service firms should collect feedback on employee performance regularly for several purposes. The feedback helps the management to identify areas for improvement, defects, and deviations from the quality specifications and initiate appropriate corrective action.

Feedback to employees- In the service industry, direct supervision may not be effective in assessing the performance and such measures, sometimes, become counter productive. Employees of service firms need to be provided support systems that can help evaluate performance by themselves and also report such performance to the top management. Therefore, the evaluation system not only has the capability of measuring performance but also has the capability of providing timely feedback to employees as well as to management. Corrective action can then be initiated when something is not in the order. A survey by internal employees, customer feedback surveys and so on are useful in designing and evaluating the system.

Measuring performance- Service firms need to develop an acceptable methodology for measuring the performance of employees. The measures should help employees to know their level of performance so that they can plan for further improvement. The performance measures help the management to recognize the merit, to identify training needs and to develop plans for motivating employees, if necessary.

(g) Rewarding- One of the prime concerns of any employee is the reward that he or she gets for the service rendered to the organisation. The rewarding system primarily should contain the following three dimensions to be effective in service business:

Competitive compensation. In whatever form (wage, salary commission or brokerage) compensation is offered to service personnel it should be competitive. Since employees get distinctive identities in service performance and such identities are linked to a company's capability, credibility, reliability and responsiveness, competitors always try to attract the employees of other organisations. During the software boom of the 1990s, software companies faced a severe threat of employee turnover. The only approach that helped organisations retain software exports was a competitive compensation policy. Service firms need to review their compensation package periodically to motivate the employees and promote morale in them.

Extended benefits. Besides direct compensation, service firms provide extended benefits to the employees. The extended benefits include employee welfare measures within the

organisation, employees' family welfare measures, employee children education, functions and social interaction. Managements can be innovative in providing extended benefits. They can touch upon the sensitivities of employees and can create a positive inner feeling among employees for the service organisation. Such benefits promote the sense of belongingness among employees and help build a strong morale.

Reward for excellence- A rewarding system, to be effective, should be capable of identifying the best performers and rewarding them to the level of their excellence. The measures adopted to identify the performers are often subjected to severe criticism by employees. If the system is not properly received by employees, it may prove harmful to the organisation. It is necessary, therefore, to involve the employees in developing the measurement system and the related reward policy.

(h) Retaining- Hiring the right people is the beginning of a human resource policy. Retaining them is the real essence of the policy. When experienced and efficient personnel move out of the service organisation, the reputation, image and performance of the company will suffer. Service companies have to develop strategies to retain employees.

Inclusion in the company vision- One of the key elements of the retention strategy would be inclusion of employees in the 'company's vision'. When the employees are made part of the company's vision, they share not only the present benefits but also the benefits to be generated in future. This step helps employees to relate their personal goals with organisational goals. They try to share an understanding of the organization's vision. They feel motivated and committed to the organisation, when they understand how their work fits into the big picture of the organisation and its goals. Service companies should prepare a vision document and communicate it to all employees frequently to reorient them to achieve their organisational goals.

Retaining the best employees- In spite of an efficient process of recruitment, selection and training, it is impossible for any organisation to ensure that all the people hired are good and efficient. However, service firms cannot afford to retain inefficient and incompetent people in the organisation. It is important to retain the best employees and keep away

unwanted employees. Employee retention strategy is not applicable to all the employees but only to the best performers.

6.8 SUMMARY

External marketing is to make every customer ready in all respects to participate in the service process. Service organisations should design an effective promotional campaign to inform, educate, persuade, train, and encourage buying and experiencing the service offered. The most powerful media in services is 'word-of-mouth] communication. Internal marketing is an approach to handle human resources in an organisation. A service employee plays varied roles in the service production process. There are eight important components in internal marketing. All these components are focused to make every employee involved in the service process with customer orientation. There is a need to integrate external marketing with internal marketing for better results in service organisations.

6.9 KEYWORDS

External Marketing: The efforts of the marketers directed at the final consumers that are in form of marketing mix – 7 Ps).

Internal Marketing: Internal marketing encompasses the service organization's efforts directed at the employees because customer satisfaction depends upon employees' satisfaction.

Interactive Marketing: Interactive marketing focuses on managing the interaction of the service organization with the customers because the customer satisfaction depends as much on interaction as on what service is delivered to them.

6.10 SELF ASSESSMENT QUESTIONS

1. Discuss the components of external marketing with suitable illustrations.
2. Write a detailed note on themes of external marketing campaigns.
3. Explain the various roles of employees in service performance with suitable examples.
4. What are important components of internal marketing?
5. Write short notes on:

- (a) Employee behaviour and service quality.
- (b) Word of mouth communication.
- (c) Need of external and internal marketing.

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LESSON: 7

SERVICE FAILURE AND RECOVERY

Subject: Marketing of Service

Paper Code: MM-411

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Vetter : Dr. Atul Dhingra

STRUCTURE

- 7.0 Objective
- 7.1 Introduction-Background
- 7.2 Steps in Service Design
- 7.3 Services Failure
- 7.4 Customer's Reaction towards Service Failure
- 7.5 Elements of an Effective Service Recover System
- 7.6 Guidelines for Effective Service Recovery System
- 7.7 Solving Problems and Preventing Their Recurrence
- 7.8 Discontinuation of Services
- 7.9 Summary

- 7.10 Keywords
- 7.11 Self Assessment Questions
- 7.12 References / Suggested Readings

7.0 OBJECTIVES

After going through this lesson, you will be able:

- To get insight into service failure.
- To learn about recovery strategies.

“If any thing can go wrong, it will”

- Murphy’s Law



7.1 INTRODUCTION

Marketing is the performance of those business activities that direct the flow of goods or services from producer to ultimate consumer. The customers may have different likes and dislikes, preferences and attitudes. These things play a crucial role to develop a product or service, which is appropriate according to the aspiration of the customers. Further the relevance of product or service to the aspiration of the customers decides the final success or failure of the product or service. Thus customer's requirements and the performance standards that the service needs to satisfy form the specifications for design. The design consists of four related components:

- (i) Product design
- (ii) Facilities design
- (iii) Service operations process design.
- (iv) Customers service process 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.

7.2 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.
To determine the technical aspects of the design from these customer
- Step 3: 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.

Blueprinting and Service mapping

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 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.

7.3 SERVICES FAILURE

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 it self, 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.

7.4 CUSTOMERS' REACTION TOWARDS SERVICE FAILURE

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.

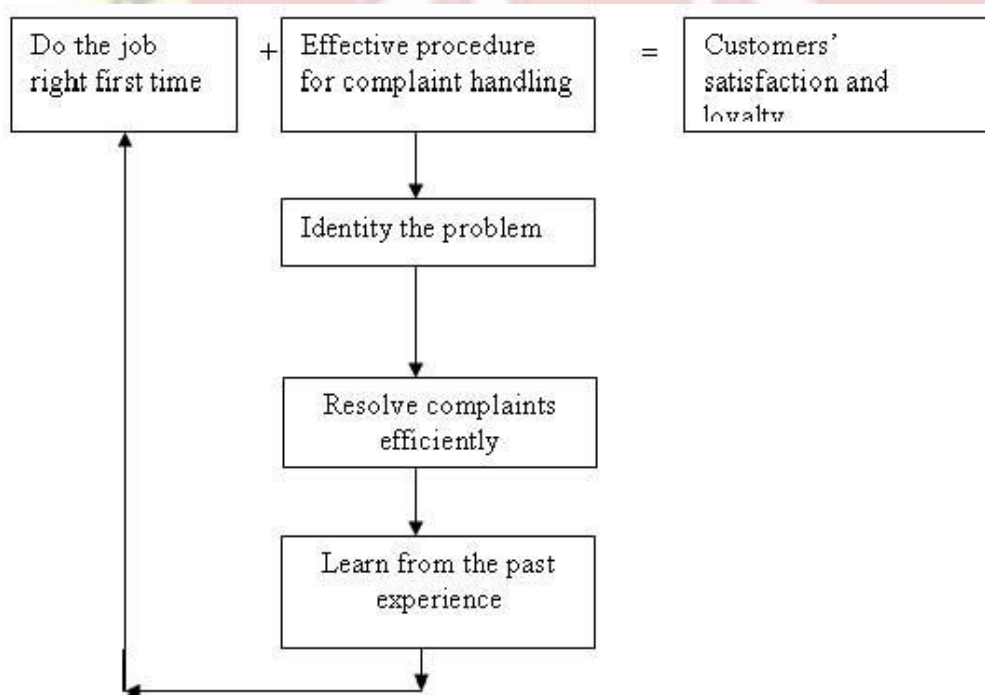
Service Recovery and Meeting Customer Complaints

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.

7.5 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. Customers 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 feed back in a timely and economic fashion that is acceptable to 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. The different elements of this system are given below:



From the above diagram it is clear that a recovery system consists of three steps viz. first of all we should do the thing in right way. But it is not always possible that all things are

right, there is always a probability of doing thing 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 important steps is given below:

- (i) *Do it right first time and always:* At the very beginning, the marketer should concentrate on doing the job right in first attempt. For this the marketer should consider every possible effort in this regard. The marketer should consider customers' aspirations, needs, 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.
- (ii) *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 patient by the doctor. Thus at this stage efforts should made to identify the real issue. The emphasis should be given on the cause of the problem, that what real issue is. Further more, 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.
- (iii) *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 alternatives which can resolve the problem. An alternative may be defined as 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.

- (iv) *Learn from the Past Experience:* It is always beneficial for the marketers to avoid recurring of mistakes. Because it involves wastage of time and money. Thus an intelligent marketer always try to learn from the past experience and take action accordingly. The marketer should emphasize what has happened good 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.

7.6 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 at 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.

7.7 SOLVING PROBLEMS AND PREVENTING THEIR RECURRENCE

Problems may be due to internal forces or external forces. When a problem is caused by controllable, internal forces, in that case there is no excuse for allowing it to repeat it. In fact, maintaining customers' relations after a service failure depends upon by keeping promises made to the effect "we're taking hard steps to ensure that it doesn't happen

again.” With prevention in mind, let’s look briefly at some simple, but powerful, quality tools for monitoring service quality and determining the root cause of specific problems that upset customers.

Flowcharting

Once manager understand the underlying processes behind service delivery and the needs and requirements of the customers, it’s easier to identify potential failure or strategic points which may be a weak links in the chain. Knowing what can go wrong and where it can be an important step towards preventing service quality problems.

Control Charts

These can offer a simple method of displaying performance over time against specific quality criteria. Since they are visual and trends can also be easily identified. It shows the performance on the basis of important criterion and suggesting that their issues and needs shall be addressed by management, since performance is erratic and not very satisfactory. Of course, control charts are only as good as the data on which they are based.

Analysis of Cause and Effect Relationship

Cause-and-effect analysis employs a technique to analyze the cause and effect relationships. It is developed by the Japanese quality expert, Kaoru Ishikawa. Groups of managers and staff brainstorm all the possible factors that might cause a specific problem. The resulting factors are then categorized into one of five groupings - Equipment, Manpower (or People), Material, Procedures, and Other - on a cause and effect chart, popularly known as a fishbone chart because of its shape. This technique has been used for many years in manufacturing and, more recently, in services.

Pareto Analysis

Pareto analysis tends to identify the principal causes of observed outcomes. This type of analysis underlies the so-called 80/20 rule, because it often reveals that around 80 per cent of the value of one variable (in this instance, number of service failures) is accounted for by only 20 per cent of the causal variable (i.e. number of possible causes).

7.8 DISCONTINUATION OF SERVICE

It is pertinent to mention that good product management depends upon reliable marketing information. The service organizations must also have the courage to discontinue offering services that are no longer profitable to the organization as a whole. The service organization should successfully maintain the service quality and should also to invest carefully in new ones. This implies a need for the following:

- Establishment of targets for each service.
- Periodic reviews of each service's performance.
- Modification of existing services when necessary.
- Elimination of services where necessary.
- Development of new services.

In reality, an organization's portfolio of products/ services is often the result of a number of factors:

- Ad hoc responses to competitive challenges
- The history and culture of the organization.
- Requests from customers
- Responses to technological opportunities.
- Take-over and mergers.

In general, there is a tendency to add-on rather than subtract, and thus many products/ services continue to consume resources of an organization which could be better used elsewhere. In addition, there are a number of 'hidden' costs of supporting dying products / services that need to be taken into consideration since an old product may not cover even overhead cost. The following are the examples of some hidden costs which requires due consideration:

- A disproportionate amount of management time is spent on them.
- Short and relatively uneconomic 'production' runs may be required where a service

has not been deleted and there is irregular demand for it.

- It often requires frequent price adjustments.
- Its search for new products and services is delayed, as so much time is spent on existing products/ service that the desired allocation of time to consider new ones is inadequate. Firms should therefore have a logical planning system that incorporates product/ service deletion. It would be important, however, to assume that deletion is a simple process. In reality, there are number of reasons why logical deletion procedures are not readily followed.
- Often firms do not have the information and results whether a product/ service needs to be considered for elimination. Even if an organization is aware of a potential deletion, the reasons for its failure may not be known, and thus management may just leave things as they are and hope that problem will go away by itself.
- Managers often become biased about products/ services. They are hoping that sales will pick up when the market improves. Sometimes, particular elements of marketing strategy will be blamed for lack of success. Further, there is the belief that a change in promotion or pricing will improve the situation.
- Within an organization there may be politics in seeking to delete a service. Some individuals may be having their vested interests in a service and they may fight elimination efforts. As a result the staff may hide the true facts of a service's performance to ensure that deletion is not considered at all at any cost.
- Finally, there is sometimes it may be a perception in the mind that the sales of other products and services are tied into the product/ service being deleted. For example, a car dealer who binds up its sales department of new car may lose its business in servicing and repairs department also. Furthermore, such elimination may be sold to the small number of important customers, leading to fears that deletion would cause all of their business to shift elsewhere. In general it is observed that majority of companies handle product/ service elimination as a last alternative. They envisaged elimination when a service is seen to be losing money and it is not lucrative from organization point of view. To determine the existing position of the present products/ services requires the need for a systematic and objective approach. It comprises review of every product/ service in terms of its market

share, potential, growth, sales, profitability, average cost, competitor's share and competitors' prices, etc.

The above overall information helps marketer to identify weak and strong elements of the overall product or service mix. This will lead to differentiate poor products/ service from good one. Thus a marketer can adopt an appropriate marketing strategy. Different authors have developed their own methods to deciding which product/ service to eliminate among these one of the most important is product/ service retention index. It include a number of factors, each of these factors are being individually weighted according to their importance in a particular firm. The importance of particular factor may different from firm to firm. Because the importance of a specific factor is depend upon a number of forces which are extremely different in each organization. Each service is then ranked according to each factor. The product/ service retain index thus being equal to the sum of the products of the weighted index. The above mentioned factors may be different kinds viz. potential share of product or service, how much should be earned from modification, how much to the product or service contribution beyond direct costs, how much is the product or service contributing to the sale promotion of the other products/ services of the company or how much is the product or service helpful to company's point of view in either way keeping in mind these factors a company can differentiate its poor products/ services and can take appropriate steps in the right direction.

7.9 SUMMARY

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 / 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.

7.10 KEYWORDS

Service failure: Inability of the service provider to render promised service / as per the customer expectation.

Service recovery: Systematic efforts by a firm to correct a problem in case of a service failure.

7.11 SELF ASSESSMENT QUESTIONS

1. What are the different elements of service design system? Discuss.
2. What do you understand by blueprinting and service mapping? What are the similarities and dissimilarities between blueprinting and service mapping?
3. Define service failure. How is the identification of points of potential services failure of paramount importance for marketer?
4. What are the different elements of service recovery system? How can a marketer make service recovery system effective?

7.12 REFERENCES / SUGGESTED READINGS

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LESSON: 8

QUALITY MANAGEMENT IN SERVICES

Subject: Marketing of Service

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Paper Code: MM-411

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STRUCTURE

- 8.0 Objective
- 8.1 Introduction
- 8.2 Defining service quality
 - 8.21 Process vs. Technical outcome quality
- 8.3 Dimensions of service quality
 - 8.31 Reliability

- 8.32 Responsiveness
- 8.33 Assurance
- 8.34 Empathy
- 8.4 Gaps in service quality
 - 8.41 Gap model
 - 8.42 Advantages of gap model
 - 8.43 Limitation of gap model
- 8.5 Improving service quality
 - 8.51 Benchmarking
 - 8.52 Service blueprinting
- 8.6 Summary
- 8.7 Self Assessment Questions
- 8.8 References

8.1 INTRODUCTION

In the present times, no marketer can ignore the importance of services. However, merely providing the service is not source of competitive advantage because every marketer is providing the same. In order to outsmart the competitors, it is important that 'better' service is provided to the customers. The issue of improving customer focus concerns the relationship between the service organization and its customers. This involves consideration of the relationship marketing approach. The relationship marketing concept brings quality, customer service and marketing together. The specific linkage between these elements are shown in Figure 8.1.

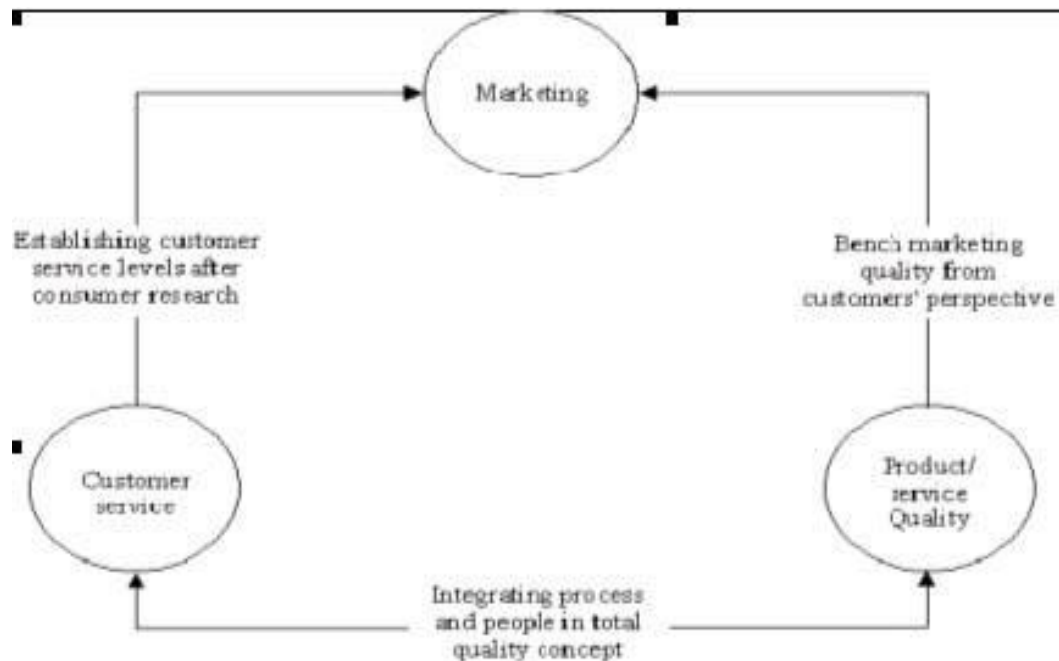


Figure 8.1: Linkages between quality, customer service and marketing

Just as many service companies have not been as successful as they would have liked in achieving a customer focus through their marketing activities, so success has evaded many organizations in their quality and customer service initiatives. Despite the advent of the concepts like TQM (Total Quality Management) and ISO etc., many service organizations continue to address quality primarily on the basis of an operations perspective concerned with conformance to specifications, rather than customer-perceived quality. However, any viewpoint of services, if imposed by the marketers, without considering the customers' perspective, is bound to fail the marketplace. Right approach to marketing starts from the customer and re-mains with the customer. Before discussing the concept of quality in relation to services, it is pertinent to define the same.

8.2 DEFINING SERVICE QUALITY

Being an intangible concept, defining service quality poses a lot of problems. It is very difficult to quantify the abstract elements of service quality, which are highly idiosyncratic and customer-specific. Several attempts have been made to define the same. 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’. Therefore, when service measures upto some predefined parameters of performance, it is said to be of higher quality. The real issue is in identifying these parameters of performance and then measuring the service in relation to these parameters. For example, for some person, waiting for 15 minutes at a bank counter is ‘OK’, while it may be ‘too much’ for another. If a teller disposes off the customer in 10 minutes, the first customer would be very delighted, but the second customer will be protesting for the delay. The problem for the banker would lie in establishing the ‘normal’ time, which a customer should wait at the counter. Despite these short-comings, a lot of research has been done to understand service quality and now it is quite possible to quantify the same.

8.21 Process vs. Technical Outcome Quality

Ultimately, consumers judge the quality of services on their perceptions of the technical outcome provided and on how that outcome was delivered. For example, a patient will judge the quality of services of a doctor by how well his sickness was cured, and also the quality of the process. The doctor’s diagnosis and treatment would constitute the technical dimension of quality. Process quality would include such things as the doctor’s timeliness, his responsiveness in attending to the patient, empathy for the patient, courtesy and listening skills. Similarly, a restaurant customer will judge the service on his perceptions of the food and on how the meal was served and how the employees interacted with him. In this example, the food would constitute the technical dimension of the quality while employees’ behaviour would be the process dimension of the quality.

If the service has a specific outcome, for example, getting fully cured by the doctor, the customer can judge the effectiveness of the service on the basis of that out-come. However, many services offered by lawyers, doctors, engineers, teachers, accountants, scooter and automobile repair etc. are highly complex and a clear outcome is not always evident. In these situations, the technical quality of the ser-vice - the actual competence of the provider

or effectiveness of the outcome - is not easy for the customer to judge. The customer may never know for sure whether the service was performed correctly or even if it was needed in the first place. For example, a car mechanic may charge any amount for repairing even for a small defect because of the ignorance of the customer. A doctor can extract any amount out of a patient's pocket for his advice. A customer's satisfaction or dissatisfaction would be known only after he has consumed the service.

The existence of both process and outcome quality can also explain why an MD doctor with superb knowledge and degree can fail to compete effectively with RMP doctor, who can deliver superior interpersonal quality as well. In this example, if customers cannot judge the technical quality of the outcome effectively (or even if they can, but they believe other equally competent doctors are available), they will base their quality judgments on process dimensions such as the doctor's ability to solve problems, his ability to empathize, whether he meets deadlines, and his courtesy.

When customers cannot accurately evaluate the technical quality of a service, they form impressions of the service including its technical quality from whatever sources exist, using their own "shorthand" or cues that may not be apparent to the provider. Consider the services that college professors provide to their students. Most students are in school to learn what they do not know. However, not knowing the subjects they are studying does not prevent them from making judgments about their professors. Cues such as the tangibles that accompany the service (overheads and other presentation materials) the professor's appearance of nervousness, the degree of confidence communicated, or even whether the professor starts and ends class on time are used to infer competence. Understanding the cues used to signal the presence or absence of technical quality allows professors and other marketers some control over their customers' impressions. These two dimensions of service quality highlight the subjective nature of quality assessments. Generally, the consumers face difficulty in distinguishing between 'good' and 'bad' quality.

Their judgements are subjective and depend upon how well they are treated by the service provider. The service provider's image also has an important role in shaping customer's perception of service quality and their satisfaction or dissatisfaction, resulting thereof. A lot of research has been done to identify and understand the factors that influence service quality.

8.3 DIMENSIONS OF SERVICE QUALITY

It has been found that customers do not perceive quality as a one-dimensional concept. The customers' assessments of quality include perceptions of multiple factors. For example, it has been suggested that the following eight dimensions of quality are applied to all goods and services:

- 1 Performance,
- 2 Features,
- 3 Reliability,
- 4 Conformance,
- 5 Durability,
- 6 Serviceability,
- 7 Aesthetics, and
- 8 Perceived quality.

The dimensions of quality are meaningful when applied to categories of products (for example durable goods, packaged good services. There is a lot of diversity in these dimensions of service quality, when applied to different products. For example, take the case of two services - teaching and medical service. The diversity of the dimensions of service quality can be shown in the form of the table 8.1.

Education Services	Medical Services
Knowledge of Teacher	Skill of Doctor
Campus	Facilities at hospital
Classroom	Cleanliness and hygiene
Audio-Visual Aids	Past record
Reputation	Reputation
Placement	Medical Instruments

Table 8.1: Dimension of service quality

Research done by Zeithaml and Berry has identified five basic key areas of service quality, which seem to fit in for most of the services. These key areas of service quality and their respective components are shown in Table 8.2 in pictorial

Key area of service quality	Components of key areas
Reliability	Ability to perform the service dependably and accurately
Responsiveness	Willingness to help customers and provide prompt service
Assurance	Employees' knowledge and courtesy and their ability to inspire trust and confidence
Empathy	Caring, individualized attention given to customers
Tangibles	Appearance of physical facilities, equipment, personnel, and written materials.

Table 8.2: Key areas of service quality

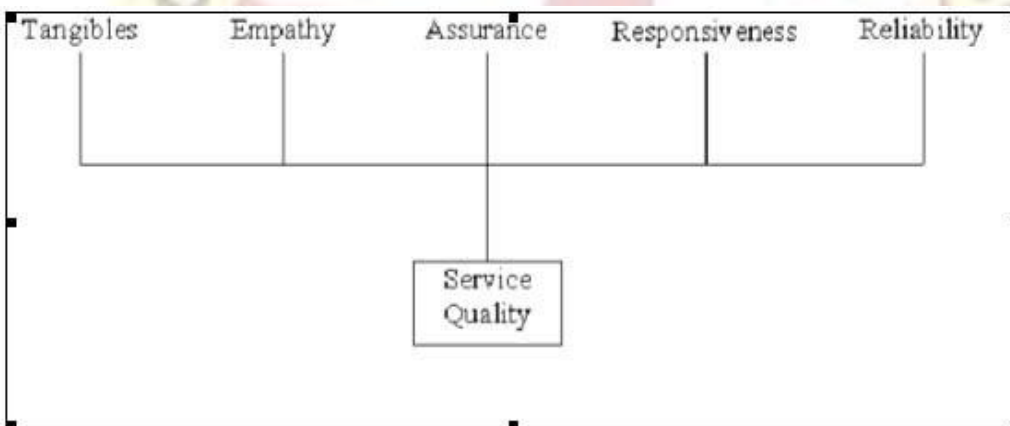


Figure 8.2: Dimensions of service quality

These dimensions represent how consumers organize information about service quality in their minds. On the basis of exploratory and quantitative research, re-searchers have found these five dimensions relevant for many services, including banking, insurance, appliance repair and maintenance, securities brokerage, long-distance telephone service, automobile repair service. The dimensions are also applicable to retail and business services. These dimensions are discussed in detail in the following discussion.

8.31 Reliability

Out of the five dimensions of service quality, reliability has been consistently found to be the most important determinant of perceptions of service quality. It is defined as the ability to perform the promised service dependably and accurately. It is an indicator of how a company delivers its promises about delivery, service provision, problem resolution, and pricing. Customers want to do business with companies that keep their promises, particularly their promises about the core service attributes. For example, in railway time table Shatabdi Express leaves a station at say 1430 hours. Reliability will be the measure of whether Indian Railways will be able to adhere to its promised departure time or not.

All firms need to be aware of customer expectations of reliability. Firms that do not provide the core service, that customers think they are buying, fail in the eyes of their customers in the most direct way. The importance of reliability is further dramatized by the finding that customers' expectations for service are likely to go up when the service is not performed as promised. When service failures occur, customers' tolerance zones are likely to shrink and their adequate and desired service levels are likely to rise. For example, the expected core service of railways is transportation. Hence Shatabdi has to leave the station at promised 1430 hours. If it is late by, say more than say 30 minutes everyday, customers are likely to lose faith in the service and may resort to airlines or use their own car.

8.32 Responsiveness

Responsiveness is the willingness of the service providers to help customers and to provide prompt service. This dimension emphasizes attentiveness and promptness in dealing with customer requests, questions, complaints, and problems. There are strong similarities between the employee behaviors noted in those critical service encounters and the responsiveness dimension of service quality. Responsiveness is communicated to customers by the length of time they have to wait for assistance, answers to questions, or attention to problems. Responsiveness also captures the notion of flexibility and ability to customize the service to customer needs. For example, if a customer wants to know the exact departure time of Shatabdi, the rail fare, facilities available, Indian Railways has to

provide for the same. If a customer rings up inquiry office and nobody picks up the phone, the service is likely to be viewed negatively by the customer. The customer will feel neglected.

To excel on the dimension of responsiveness, a company must be able to view the process of service delivery and the handle the requests queries or complaints of from the customers. It must be able to understand customers' point of view rather than impose its own point of view. Standards for speed and promptness that reflect the company's view of internal process requirements may be very different from the customer's requirements for speed and promptness.

8.33 Assurance

Assurance is defined as employees' knowledge and courtesy and the ability of the firm and its employees to inspire trust and confidence. This dimension is likely to be particularly important for services that the customer perceives as involving high risk and/or about which they feel uncertain about their ability to evaluate outcomes, for example, banking, insurance, brokerage, medical, and legal service.

Trust and confidence may be embodied in the person who links the customer to the company, for example securities brokers, insurance agents, lawyers, counselors. In such service contexts the company seeks to build trust and loyalty between key contact people and individual customers. The "personal banker" concept captures this idea-customers are assigned to a banker who will get to know them individually and who will coordinate all of their banking services.

In the early stages of a relationship, the customer may use tangible evidence to assess the assurance dimension. Visible evidence of degrees, honors, and awards and special certifications may give a new customer confidence in a professional service provider. Even in the public sector banks, the concept of personal banking and customizing the services is gaining popularity. Despite heavy marketing of private sector banks, people feel assumed

of the security only with the public sector banks. This is the 'assurance' dimension, encompassing trust and confidence.

8.34 Empathy

Empathy is defined as the caring, individualized attention the firm provides to its customers. The essence of empathy is conveying, through personalized or customized service, that customers are unique and special. Customers want to feel understood by and important to firms that provide service to them. Personnel at small service outlets often know customers by name and build relationships that reflect their personal knowledge of customer requirements and preferences. When such a small firm competes with larger firms, the ability to be empathetic may give the small firm a clear advantage.

In business-to-business services, customers want supplier firms to understand their industries and issues. Many small computer consulting firms successfully compete with large vendors by positioning themselves as specialists in particular industries. Even though larger firms have superior resources, the small firms are perceived as more knowledgeable about customer's issues and needs and able to offer more customized services.

8.35 Tangibles

Tangibles are defined as the appearance of physical facilities, equipment, personnel, and communication materials. All of these provide physical representations or images of the service that customers, particularly new customers, will use to evaluate quality. Every service has an element of tangibility, although its significance may vary. For example, in medical services, hospital, equipment, medicines are the tangible dimensions. Despite being of very high value, the service is incomplete in absence of a skilled doctor. Alternatively, despite having a skilled doctor, a hospital is likely to be rejected if it is dirty and unhygienic. Service industries that emphasize tangibles in their strategies include hospitality services where the customer visits the establishment to receive the service, such as restaurants and hotels, retail stores, and entertainment companies.

Tangibles are often used by service companies to enhance their image, provide continuity, and signal quality to customers.

8.4 GAPS IN SERVICE QUALITY

Quality can be viewed from two perspectives - internal and external. Internal quality is based on conformance to specifications. External quality is based on relative customer-perceived quality. The important point is that quality must be seen from the customer's viewpoint, not the company's. It is essential that quality be measured from the customer's perspective, not from what managers within a company think their customers' views are:

Several reasons have been identified as to why it is unsafe to rely on managerial opinions of customer perceptions. These include the following:

1. Management may not know what specific purchase criteria users consider important. For example, customers frequently identify key purchase criteria not identified by management. Even when the criteria are correctly identified, management may misjudge the relative importance of individual criteria.
2. Management may misjudge how users perceive the performance of competitive products on specific performance criteria. These differences in perception of performance may exist for the most basic of criteria.
3. Management may fail to recognize that user needs have evolved in response to competitive product developments, technological advances, or other market or environmental influences.

8.41 Gap model

A model has been developed by Parasuraman and his colleagues which helps identify the gaps between the perceived service quality that customers receive and what they expect. The model identifies five gaps:

Gap No.	Dimension of gap
1.	Consumer expectation and management perception.
2.	Management perception and service quality expectation.
3.	Service quality specification and service deliver.
4.	Service delivery and external communications to consumers.
5.	Expected service and perceived service.

The model showing these gaps is shown as figure 8.3.

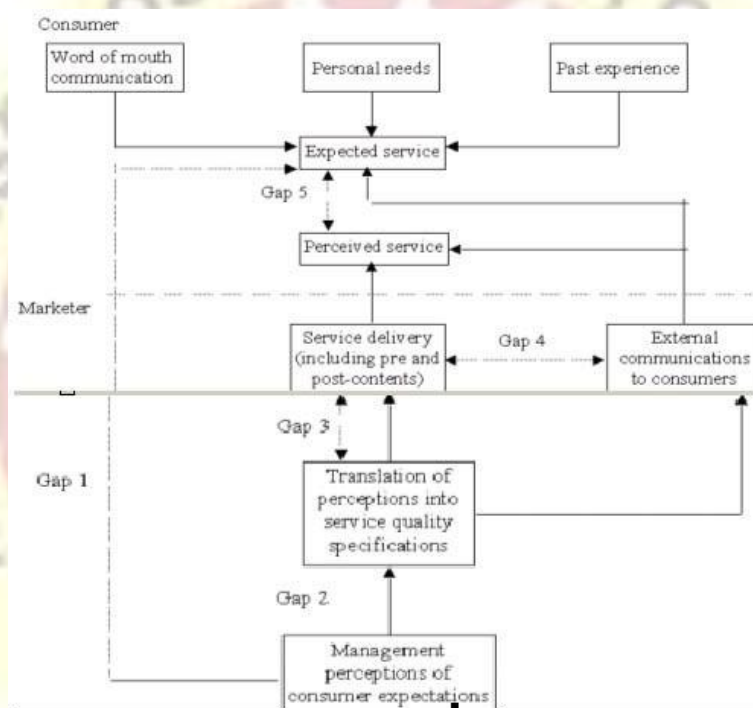


Figure 8.3: The service quality gap model

Source: A. Parasuraman, V. A. Zeithaml and L. L. Berry, 'A conceptual model of services quality and its implications for future research', *Journal of Marketing*, vol. 49, Autumn 1985.

Gap - I

The first gap is the difference between consumer expectations and management perceptions of consumer expectations. Research shows that financial service organizations

often treat issues of privacy and confidentiality as relatively unimportant, whilst consumers considered them very important.

In India, very little research is done by the companies to know the customers' expectations. Often, management believes that their estimate of what customers want is final. They make an error of judgment at this stage. The customers themselves are also to be blamed because they do not protest or complain, when they do not get the desired service. This keeps the management in the dark and they continue to live by their belief that what they think is correct.

For example, after the coming of private telephone companies, the PSUs never bothered to listen to their customers. This kept the customers dissatisfied and the private players were able to make a rapid entry into the market by taking the advantage of this gap of the PSU telecom service provider.

Gap - II

The second gap is the difference between the management perceptions of consumer expectations and service quality specifications. Managers will set specifications for service quality based on what they believe the consumer requires. However, this is not necessarily accurate. Hence, many service companies put much emphasis on technical quality, when in fact the quality issues associated with service delivery are perceived by clients as more important.

For example, some foreign banks believe that the customers will maintain high minimum balance (to the tune of Rs. 10000/-) in their accounts. This is too heavy an amount for any bank, which aspires to become a "mass" bank and not remain a "class" bank. Probably, these banks extrapolate the minimum balance maintained by the customers in foreign countries. In India, same specifications cannot work.

Gap - III

The third gap is the difference between service quality specification and the service actually delivered. This is of great importance to services where the delivery system relies

heavily on people. It is extremely hard to ensure that quality specifications are met when a service involves immediate performance and delivery in the presence of the client. This is the case in many service industries: for example, a medical practice is dependent on all the administrative, clerical and medical staff performing their tasks according to certain standards. The practice may set a goal of a maximum fifteen-minute patient waiting time, however, a doctor who keeps a poor schedule will upset the system for all of the staff.

For example, it happens in most government offices in India that one or more dealing clerks are on leave or do not process the files, leading to delay in the decisions. This upsets the whole working of the office.

Gap - IV

The fourth gap is the difference between service delivery intention and what is communicated about the service to customers. This establishes an expectation within the customer which may not be met. Often this is result of inadequate communication by the service provider.

Indian Railways is a good example to show this gap. Late arrival of trains is more of a routine than being an exception. Even the clerk at the reception is unable to tell the exact time of delay. No officer of the railways takes any responsibility for the delay.

Gap - V

The fifth gap represents the difference between the actual performance and the customers' perception of the service. Subjective judgement of service quality will be affected by many factors, all of which may change the perception of the service, which has been delivered. Thus a guest in a hotel may receive excellent service throughout his stay, apart from poor checking out facilities. But this last experience may damage his entire perception of the service, changing his overall estimation of the quality of the total service provided from good to poor.

8.42 Advantages of gap model

The gap model has following advantages:

- It provides a framework for understanding the factors of service quality.
- It helps in identifying shortfalls in service quality.
- It suggests the means to fill the gaps.

8.43 Limitation of gap model

The problem of the gap model lies in defining and quantifying various specifications to identify these gaps.

8.5 IMPROVING SERVICE QUALITY

Improving service quality is an important activity, which needs to be followed. Some of the commonly used techniques for improving service quality are:

8.51 Benchmarking

8.52 Service Blueprinting

8.51 Benchmarking

In order to evaluate service quality it is important to establish a firm's performance relative to its competitors. Benchmarking involves looking for the best ways to achieve competitive advantage. It stems from the Japanese practice of '*dantotsu*' which means striving to be '*best of the best*'. The company's products, service and practices are continually compared with the standards of the best competitors and identified industry leaders in other sectors. By observing and measuring the best within and outside the industry it is possible to improve the performance of the company.

An early firm to adopt benchmarking was Xerox Corporation who use it as a major tool in gaining competitive advantage. Xerox first started benchmarking in their manufacturing activities and focused on product quality and feature improvements. Xerox is now seen as a world role model for quality improvement with some 240 different functional areas of the company routinely involved in benchmarking against comparable areas. Service companies can identify improvement opportunities from a wide range of different industries, not just services. The value chain concept developed by Micheal Porter can be especially useful in benchmarking competitors. By systematically comparing processes within each element of the firm's value chain with those of competitors, areas for improvement can be identified.

Such systematic comparisons can make transparent areas where competitive advantage can be secured. Benchmarking can be used to improve service quality or reduce cost. For example, it may show where competitors are subcontracting activities out to third parties at prices lower than it would cost them to perform the activities themselves.

8.52 Service blueprinting/process analysis

Service companies who wish to achieve high levels of service quality and customer satisfaction need to understand all the factors which 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.

8.6 SUMMARY

Service quality has great potential of offering competitions advantage to the marketers. Being a highly intangible concept, it is amenable to different interpretation. However, there are several common dimensions of service quality, which have been identified by the researches. Many firms have also developed specific techniques for improving service quality.

8.7 KEYWORDS

Service quality: Ability of the service to live-up to customers' expectations.

Technical quality: Quality of 'what' service is delivered to the customer.

Service quality specifications: Based on customers' expectations, the organizations develop standards of service performance.

Benchmarking: The practice of identifying the best management practices may be from even unrelated fields and adopting the same may be with certain modifications.

8.7 SELF ASSESSMENT QUESTIONS

1. Define service quality what are some of the ways to perceive the same?
2. Write an essay on 'gap model' of service quality. Discuss its applications.
3. What are various dimensions of service quality? Is it possible to study service quality from these dimensions only?
4. What are various techniques of improving service quality ?

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LESSON: 9

MANAGING THE PRODUCTIVITY AND DIFFERENTIATION IN SERVICES

Subject: Marketing of Service

Paper Code: MM-411

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STRUCTURE

- 9.0 Objectives
- 9.1 Introduction
- 9.2 Productivity
- 9.3 Strategies for Productivity
- 9.4 Managing Capacity
- 9.5 Differentiation
- 9.6 Steps in Differentiation
- 9.7 Summary
- 9.8 Keywords
- 9.9 Self Assessment Questions
- 9.10 References / Suggested Readings

9.0 OBJECTIVE

After going through this lesson, you will be able:

- To understand the concept of productivity and its relevance in service organization.
- To identify ways of optimizing the productivity in service sector.
- To identify the problems in creating differentiation in service industries

- To know how competitive forces have influenced differentiation in India
- To get familiarized with the value chain concept used as the basis for competitive differentiation.

9.1 INTRODUCTION

It is difficult to differentiate one's services from those of the competitors due to intangibility. The problem assumes a still larger dimension in those services where prices are regulated or in case where the competition is non-price one. However, with a view to obtain a competitive edge, the solution lies in a differentiated offer, delivery and image. Managing productivity is yet another strategic issue in service organisations. In fact, it is said that services are not produced but they are performed. Nonetheless any service operation has some capital investment and operating costs. Therefore, in service organisations the productivity issue can't be overlooked. Today, it is recognized as a major strategic issue in all service organisations.

9.2 PRODUCTIVITY

Generally, it is submitted that productivity enhancing is the way to increase the profits of firms. And, the productivity is usually described as the ratio of output of a production process to an aggregate value of inputs. Such a concept of productivity revolves around two basic assumptions. First, the factors of output are perfectly defined so that they can be measured and second, the utility of output is not questioned. This concept of productivity has been developed on the basis of experiences in the manufacturing sector. However, services are basically different from goods in the following ways:

- (i) Services are performed and not produced,
- (ii) Service facilities must exist before they are used,
- (iii) Services can't be stored,
- (iv) Quality varies in services sector, and consumers are an integral element in service productivity.

All such factors complicate the issue of productivity measurement in services sector. Nonetheless the relevance of productivity management can't be overlooked. The other

problem in services sector is that lower productivity is influenced by a number of factors, which are unique to services industry. For example, service in industry is more labour intensive as against the manufacturing sector, which is capital intensive. In services, if you have to achieve higher output, you have to proportionately increase the workforce. The second problem is that of fewer opportunities because of economies of scale, lack of specialization and independence on the human element. The third problem is the size of service operations. A number of service organisations are run by a handful of people. A nursing home, a lawyer, a consultancy service are some such examples. Here neither is division of labour possible nor specialization. All these problems make the task of managing productivity much more challenging in service organisations, and therefore it is considered to be a major strategic issue.

9.3 STRATEGIES FOR PRODUCTIVITY

Nevertheless, many suggestions for improving productivity can be put forward, discussed as follows:

- *Improving Staff Performance through Training:* The staff in contact with the customers provides a visible element of the service. They should be trained to provide better service not only through hard work but also with skills. This would result in better productivity and also higher customer satisfaction.
- *Introducing Systems and Technology:* Production-line approach to services recommends that service companies should industrialize their services and adopt a manufacturing attitude towards producing services. He observed” that service industry executives should begin to think seriously that they are actually manufacturing products. They would then ask what technologies and systems are required, what machines can replace people, what systems are needed in place of serendipity. For industrialization of services, technology can be applied in three ways. First is the hard technology, which implies substituting machinery for people’ (e.g., airport surveillance of baggage with x-ray equipment). The second, the soft technology that implies substituting pre-programmed systems for individual service operations (e.g., fast food operation). The third, hybrid technology, which

implies combining the above two, i.e., equipment with planned systems to gain greater order, speed and efficiency.

- *Reducing Service Levels:* Productivity can be improved by reducing quality of service (e.g., a doctor can give less time to a patient and the preliminary investigation or patient's history can be documented by a junior doctor). But here one has to strike a balance between quantity and quality of service delivered. Alternatively, as a strategic tool, one can differentiate their services by broadening the quantity and thereby quality.
- *Substituting Products for Services or Adding New Services:* One can increase productivity by increasing number of services. For example, Department of Post introduced courier service and followed it by introducing the non-document courier service thus adding to their services. A hotel can add parties and marriages to their banquet services to introduce productivity.
- *Customer Interaction:* Involving the customer in the service delivery process in place of your own employees can enhance the productivity, e.g., a self service restaurant. However, there could be situations where the customer is willing to pay more rather than 'waiting'. Hospitals are such examples where customers don't want to participate in the production of services but want to leave everything on the hospital staff. Therefore, one has to understand consumer behaviour and the causes of such behaviour before educating and expecting the customer to participate in the production process.
- *Reduce Mismatch Between Supply and Demand:* The concept of de-marketing suggests a strategy to discourage the customers on a temporary or permanent basis to achieve synchronization between the demand and supply. The strategy should be either to manage demand or supply or both. There are some basic strategies to alter demand so as to fit it within the available capacity. In such situations where

capacity is restricted, the four strategic options are: developing off-peak pricing schemes, non-peak promotion and demand creation, developing complementary services, and creation of reservation system.

Developing off-peak pricing schemes will help in shifting the demand from peak periods to non-peak periods. Resorts and hotels do offer off-season packages to shift the demand and even the telephone corporations have differential pricing to shift demand to non-peak hours. Retail chains or departmental stores offer straight discounts on the total bill if purchases are made during non-peak hours.

However, such a strategy may not always work. It has also been observed that organisations, during the slack season, impart training their staff, do maintenance of equipment, clean premises to prepare for next season. During this period if demand builds up, there are chances of customers walking out dissatisfied. It might even affect the business in the peak season because of negative word of mouth.

Another method, which can help in shifting demand from peak, period, is developing complementary or facilitating services. Such services would not only attract consumers away from bottleneck operations at peak times but might also provide an alternative service while they are in queue for the capacity restricted operations. For example, at a casino, a lounge with wide screen television showing some exciting movie or a bar would shift some of the tourists from restricted capacity service operations. Such a strategy would not only give additional revenue but also an opportunity to differentiate the service offer from the competitors. Lastly, the reservations strategy can also help in managing demand and, thus, customer satisfaction. Table reservations in a restaurant, reservation of cinema tickets in advance are some examples of such a strategy.

9.4 MANAGING CAPACITY

The other set of strategic options are related to managing capacity and controlling the supply side by selecting out of the following strategic options: using part-time employees,

increasing efficiency of existing personnel involving customers, sharing capacity with others, and investing in expansion options.

Employing part-time employees (moonlighters) is one of the solutions to increase capacity. At a resort hotel, local students can be engaged during peak seasons to cater to the customers. The most appropriate example is management institutions, which run their regular courses with part-time/guest faculty.

The other option is to maximize the efficiency of existing employees by imparting training. By training the staff in multiple functions, most employees can be engaged in essential tasks of delivering the service during peak hours and the support tasks are deferred to slack periods. A smaller hotel can successfully use this method where a handful of people can provide room service, housekeeping and restaurant service.

The third method is that the consumers participate in delivery of service and, thereby, lower the labour requirements of the producer. Self service groceries floor or restaurants are examples of such a strategy.

The fourth method is that of sharing capacity with others rather than creating capacity in-house. Hospitals, for example, participate with pathological labs, X-ray clinics, CAT-scanning labs, etc., rather than investing in expensive equipment themselves.

Even restaurants are selling branded ice creams rather than investing in ice cream making facilities in-house. Lastly, of course, is the option of increasing capacity by investing in expansions so as to cater to the increase in demand. This strategy is best suited if the increase in demand is of a permanent nature.

Although, productivity would result in better profitability, service managers should not push it so hard that quality is affected in some or the other way. It might be that the quality delivered is the same but the customer has perceived a reduction in quality. Therefore, one has to balance out between productivity, standardized quality and customers.

9.5 DIFFERENTIATION

The important thing, which needs to be understood, is the level of service package. One has to understand the primary service package and the secondary package in relation to a specific service and then create differentiation. If we take the example of recent changes, which have come about in the Indian aviation industry, the strategies package for civil aviation industry includes punctuality. If these Airlines have achieved 97 percent on time departures, they are able to differentiate themselves from the public sector airlines. The other strategies towards differentiation include free on board liquor, non-Indian cabin crew, quality of food, etc. From this example we observe that most innovations in service industries are capable of being copied.

Although this is a reality in service industries, a marketer still keeps introducing newer innovations to sustain the competitive edge. For example, Citibank in India (more specifically, Delhi) was not permitted to open branches beyond a limited number affecting “retailing of their services”. They made innovative arrangements with other parties for increased distribution of their loan services to purchase house, scooter, car, durables and other household appliances. This arrangement gave Citibank a competitive edge. Gaining a competitive edge by product differentiation, product positioning, market segmentation, new product planning, innovations, product quality, etc. has become the foundation of marketing strategy with the purpose being to win a long-term commitment from key customers. The consumer orientation of business strategy has become far more important because of growing competition, and, as a result, knowing your business, your markets, your customers and your products with specific reference to you competitors has become the new strategic tool.

According to Michael Porter, it is difficult to understand competitive advantage by looking at a firm as a whole. Instead, each of the activity, which a firm performs to design, produce, market, deliver and support its product, should be examined and the interaction of each with the rest should be analyzed to identify the sources of competitive advantage. But is it that one always has to develop competitive policies, and do such policies always pay? The competitive forces had a direct impact on a firm’s profitability and, therefore, marketing or business strategy should take competition into cognizance.

The differentiation is a major issue in service industries as most service innovations can be easily copied. Service companies, therefore, face the challenge of continuously developing new innovations to gain a succession of temporary advantages over their competitors. The firms invariably view the potential sources of differentiation too narrowly. A firm needs to differentiate its offer from that of competitors by providing something unique that is valuable to the buyer. If this is successfully achieved the firm can command a premium price, sell more of its product in the long run and win greater loyalty.

Further, the products are differentiated by the company's image and reputation, the salespersons with whom the customer interacts and a bundle of other intangible attributes. Differentiation stems from each of the specific activities a firm performs and how they affect the buyer. Therefore differentiation, in fact, grows out of the firm's value chain. Though the concept of value chain was devised keeping the manufacturing companies in focus, however, this concept applies equally well to the service industry. The value chain desegregates a firm into strategically relevant activities with corresponding cost implications. A firm can gain competitive advantage by performing these strategically important activities more economically or better than its competitors to gain an advantage over them.

Value chain activities are broadly categorized under two heads. First are the primary activities like inbound logistics, operations, outbound logistics, marketing, sales and servicing. The second are the support activities, which include infrastructure, human resource management, technology development and procurement. In fact, the support activities are integrating functions that cut across the various primary activities, which can be further subdivided into specific and discrete primary activities, which contribute to the value chain.

Generally, it can be observed that value activities are discrete building blocks of competitive advantage. How each value activity is performed with its economics of cost in relation to the competitors would determine its contribution to the buyers needs and, thereby, create a differentiation and a discrete competitive advantage. Similar to the firm, buyers also have value chains. It is difficult to construct a value chain that covers

everything an individual buyer or a household and its occupants do. But it is possible to construct a chain for activities that are relevant to how a particular product is used. A chain need not be constructed for every household but chains for representative households or individuals can provide an important.

9.6 STEPS IN DIFFERENTIATION

Porter recommended an eight-step approach to determine the bases of differentiation and selecting a differentiation strategy. More specifically, the differentiation exercise would follow the following steps:

The first step is to determine who the real buyer is. In other words, within the overall buying cycle who would interpret your offer and decide. It is possible that apart from the end user, channel members may also be the buyers.

The second step in this process is that the firm must identify the direct and indirect impact on its buyer's value chain to determine the value the firm should create for its buyers. A firm must explore all possible options to influence the buyer's value chain in its direction. Such an analysis of buyer's value chain would provide a foundation for determining the buyer purchase criteria (BPC).

Therefore, logically, the third step is to rank the buyer purchasing criteria. At times, such an analysis might suggest purchase criteria that the buyer does not currently perceive. However, the same must be identified in a manner that it can be operationalised, and their list of buyer purchase criteria on a continuous basis to sustain competitive advantage. Such an inventory of BPC is then divided into two categories; *use criteria and signaling criteria*.

The fourth step is that the firm must identify its existing sources of uniqueness in relation to its competitors and also the potential new sources of uniqueness, because differentiation stems from the uniqueness of firm's value chain. Since differentiation is always relative, a firm's value chain must also be compared with the value chain of competitors. Such an exercise should result in the identification of specific factors of uniqueness, termed as 'drivers'.

The fifth step then is to study the cost implications of all the indemnified factors, both use criteria and signaling criteria, which can lead to differentiation.

The sixth step is to choose the configurations of value activities that create the most valuable differentiation for the buyer.

The seventh step is to check the sustainability factor of your chosen differentiation strategy. Sustainability has to be checked against erosion or imitation. Kotler has observed that in services industry imitation is easy to copy, but some companies have been able to cross this stage successfully.

The last stage is that of cost reduction in activities that do not affect the chosen forms of differentiation. Such a strategy would not only improve profitability but also reduce vulnerability to competitors because of price premium.

In fact, successful differentiation strategies communicate multiple forms of differentiation throughout the value chain. After all, the value created for the buyer must be perceived by the buyer if it is to be rewarded with a premium which means that the firm must communicate their value to the buyer through an appropriate marketing communication mix. If these stages are carefully analyzed, then one can develop such differentiation strategies, which are not only implementable but also sustainable, and give a competitive advantage to the organisation.

9.7 SUMMARY

It is observed that the productivity is relevant in service organisations. There are six major ways in which improvements in productivity can be brought out: improving staff performance through training, introducing systems and technology, reducing service levels, customer interaction, and managing capacity by controlling supply. In certain service organisations the capacity is fixed and it is rather difficult to increase the same, as the industry might be capital intensive. It could also be that demand exhibits a certain seasonality pattern. In such service organisations, one of the major marketing challenges is demand management. It might be generating demand during low demand periods or

shifting demands to low demand periods during peak hours, when demand exceeds capacity. Managing differentiation is one of the major challenges a service marketer faces. The problem with service industries is that others can copy whatever you want to do to seek differentiation. You may be aware that one 'air-taxi-operator' started offering liquor on board on the domestic routes and others followed. Nevertheless, service industries must strive for differentiation strategies for competitive advantage. In this chapter, you have been taken through the eight steps of Porter's model and it was suggested that differentiation strategies must communicate multiple forms of differentiation throughout the- value chain.

9.8 KEYWORDS

Productivity: The ratio of output of a production process to an aggregate value of inputs.

Differentiation: Creating a set of meaningful differences in your brand so that it may be distinguish from the competing brands

9.9 SELF-ASSESSMENT QUESTIONS

1. What do you understand by 'productivity' and how is it relevant in a service organisation?
2. Is it possible to improve productivity in an organisation where employees are not willing to cooperate? Give justification to your answer by taking the case of a specific service organisation.
3. Visit a nearby star category hotel and identify what methods it adopts to manage productivity when the demand for its services goes up during the wedding season.
4. What do you mean by differentiation? How it is possible in service industry?
5. What are the steps in differentiation strategies in services?

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LESSON: 10

MARKETING OF FINANCIAL SERVICES

Subject: Marketing of Service

Paper Code: MM-411

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STRUCTURE

- 10.0 Objectives
- 10.1 Introduction
- 10.2 Process of Financial Services Market
- 10.3 Financial Services and Consumers
- 10.4 Financial Institutions and Financial Products
- 10.5 Physical Distribution of Financial Services
- 10.6 Advertising of Financial Services
- 10.7 Branding of Financial Services
- 10.8 Management of Banking Services
- 10.9 Mutual Fund Marketing
- 10.10 Summary
- 10.11 Keywords
- 10.12 Self Assessment Questions
- 10.13 References / Suggested Readings

10.0 OBJECTIVES

After going through this lesson, you will be able:

- To learn about the process and marketing of financial services.

10.1 INTRODUCTION

Finance refers to funds of monetary resources needed by individuals, business houses and the government, individuals and households requires funds essentially for meeting their current requirements or day to day expenses or for buying capital goods commonly known as investment. On the other hand a firm needed funds for the payment of wages and salaries and for purchasing raw material and other assets. In the same way traders require funds for buying and stocking goods in their shops and go-downs. Finally the government needs funds to meet its expenditure on goods and services and finance its development programmes. The financial system refers to the system of borrowing and lending of funds or the demand for and the supply of funds of all individuals, institutions, companies and of 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.

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 purpose. Broadly, therefore the Indian financial system is comprised of:

- The banking system, the insurance companies, mutual funds investment funds and other institutions which promote saving among the public, collect their savings and transfer them to the actual investors.
- The investors in the country comprised of individual investors, industrial and trading companies and the government-these enter the financial system as borrowers.

In the 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 the more or less a uniform or identical financial products are offered by competing organizations. Thus, it is advocated that the production and planning of financial services should be reviewed in terms of consumer satisfaction because consumer is the king of market. The whole success or failure depends upon the attitudes of the customers towards 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.

10.2 PROCESS OF FINANCIAL SERVICES MARKET

The term process refers to the systematic sequence of different activities, events towards certain ends. A process is basically a dynamic concept rather than static. 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-Borrower:

Basically it functions on the simple principle that the bank/ finance company:

Borrowers at interest rate	a
Lenders 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).

10.3 FINANCIAL SERVICES AND CONSUMERS

In this business, the consumer can be of two types:

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.

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.

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 the finance company, usually the more difficult it is for them react to individual needs. Hence a way is to be sought for clustering consumer traits as empathetically 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 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).

10.4 FINANCIAL INSTITUTIONS AND FINANCIAL PRODUCTS

In order to appreciate the range of financial products available to us in the country we shall briefly discuss about their "providers" and that 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.

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 very branding of the product.

Financial Products

1. *Savings and Recurring Account*: These are products available only with banks, providing relatively low yield but offer 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 terms 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 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 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.

Regulatory Framework in India

All functions and responsibilities of banks (both Indian and foreign) and finance-companies are governed by the regulations stipulated by the Reserve Bank of India (RBI). For banks the two critical elements of Cash Reserve Ratio and Statutory Liquidity Ratio are fixed by RBI.

From time to time strictures are issued for matter such as revision of interest rates; change of policy; foreign exchange regulations.

Technology Power for Financial Products

The growth of banking concept has been dramatic in recent times. While banks have been instrumental for various technological innovations, they have also been adapting the breakthrough to further their service by adding newer dimensions.

Apart from the extensive use of computers for accounting purposes and communications network of the general order, banks have introduced innovative concepts like Magnetic Ink Character Recognition (MICR), cheques, Bankers Automated Clearing Services (BACS), Clearing House Automated Payment Systems (CHAPS), Cash Dispensers (CDs), Automated Teller Machines (ATMs) are towards instant operational retail banking transactions. Laser Cards have enhanced the utility of credit cards. The formation of Society for Worldwide Inter Financial Telecommunications (SWIFT) coordinates international banking transactions through Satellite communications.

Pricing of Financial Products

Since all Indian banks and finance companies go by the dictates of the Reserve Bank of India, it becomes clearly mandatory that the pricing of all their products conform to RBI regulation).

In market share pricing once ownership is achieved and price control is firmly within the company's grasp, high profits can be attained.

In spite of the increased use of other factors in the marketing mix, price is an important element, and successfully fixing a price is especially challenging for new products and services. Attention must be paid to the pricing objective, policies and procedures. But above all, good knowledge of the costs of administration and selling, understanding of consumer demand and an awareness of the competitors likely reactions determine how successful the chosen price will be.

10.5 PHYSICAL DISTRIBUTION OF FINANCIAL SERVICES

Banks and finance companies use basically three ways in which they can sell to their customers:

- **Direct face-to-dace sale:** something very commonly noticed in the case of insurance companies, mutual fund schemes, Unit Trust of India.
- **An indirect face-to-dace sale:** This occurs when financial products are provided through intermediaries. Examples could be project consultants helping their clients to raise finance from banks, departmental stores stocking application forms for credit card membership, housing societies and car dealers making arrangements for loans.

The choice of distribution channel used for delivering the institution's products is affected by many variables. The merits and demerits of different alternative are listed below:

	Merits	Demerits
a) Direct Face-to-Face	Advantage of full control	Distribution Network Expensive
b) Indirect Face-to-Face	No investment is required to setup this channel	Clear lack of control intermediary decides how much to sell and of which company

c) Direct Marketing	Targeted individuals receive sales proposals through letter-box and tele-marketing	Vulnerability of being treated as junk mail
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One of the most challenging tasks in delivering products through an established agent field force (as in the case of LIC or UTI) is the difficulty of controlling the sales staff who in general are extrovert personalities and free-thinking individuals. If not handled carefully this could lead to drop in their morale.

Motivation is the key to a successful sales team. It can be achieved through financial incentives, sales contests, etc. (insurance companies have the exclusive Chairman's Club where star salesmen are granted membership). Some of the key success factors for a financial services company are:

- Product Differentiation
- Accurate Credit Appraisal System
- Strong Management Information Systems
- Effective Account Receivable Management
- Regular Debt Follow-up

10.6 ADVERTISING OF FINANCIAL SERVICES

Advertising is a very useful tool for promotion of financial products and services. Financial advertising is big business today. The middle class, flush with funds, has entered the stock market in a big way over the last decade by virtue of which India is emerging as one of the largest stock markets in the world. Financial advertising has also grown in India over the last decade to cater to the upcoming market.

The aim of financial advertising is to promote financial products so as to persuade the new breed of investors to put their money into the market. In India, as the investor is still new to the gamut of financial products and services being offered to him, the task of promotion thus, become much more challenging and exciting.

The financial products being offered today are very similar in various aspects. Examples

are SBI Magnum Express, SBI Magnum Triple Plus, Canstar etc. This leaves the investor very confused and unable to decide which one to go for. This sort of situation calls for financial advertising which can distinguish the financial products of a company from those of its competitors. Mutual Funds in the market today indulge too much in the 'me too' type of advertising and have created a very confusing scenario.

When promoting financial products, it is important to see that people get all the facts in front of them. Unlike the advertisements of consumer non-durable like cigarettes, soaps etc., a financial product can't be explained using smart one-liners. Instead the copy needs to bring out all the features of the financial product. The intangible financial service has to be tangibilized through the medium of the advertisement. A person interested in investing his money is bound to go through each and every detail of such advertisements. The advertisement should be in concordance with people's emotions, speak their language and reflect their trust.

Financial markets display trends towards two types of advertising - Corporate awareness advertising and product advertising. Corporate Awareness Advertising is done by companies not just so that the prospective and existing customers will feel comfortable with the products they are using, but rather that this helps differentiate a product through building a brand personality.

Sometimes back Tata Steel ran a corporate campaign just before its public issue. The advertisement carried a long list of the activities the company was involved in. The memorable parting line-"We also make steel".

Amongst the factors influencing the success of a corporate awareness campaign are:

- a) Competitors' activities.
- b) Underlying changes in the market.

Product Advertising

Financial product advertising has finally come of age. Over the last decade, the flourishing

Indian middle class has discovered the scope of making investments in various financial products such as shares, debentures, mutual funds etc. The market has responded by going in for active advertising of these products.

So far in India, financial advertising has not been quite spectacular. The major reason could be that the subject of finance cannot be treated alike other product advertising. It is particularly difficult when the financial instruments offered by different competitors are very similar.

The following points should be adhered to in financial advertising:

- a) Give the prospects all possible information that would help them.
- b) Avoid jargon and convey information in language the public can easily understand.
- c) The more the advertisement explains, the more likely a sales is. In financial advertising all evidence points to the fact that long copy does get read.

10.7 BRANDING OF FINANCIAL SERVICES

Financial products or instruments are basically documents evidencing transfer of funds from the saving community, i.e., investors, to the business community, where it can be gainfully deployed, on certain predetermined terms and conditions such as rate of return, repayment schedule, liquidity, and hence fits etc. Since these terms and conditions are very crucial to investment decision-making, companies and banking/ insurance institutions dealing in financial products must consciously endeavour to highlight them in order to win the confidence of investors. This is where the concepts of marketing come in. A number of factors can be identified, which have necessitated the adoption of an aggressive marketing strategy for such products:

1. Growing investor awareness
2. Growing number of companies/ institutions turning to capital market for funds
3. Liberalization of economy
4. Recent credit squeeze and freezing of interest rates
5. Stagnant saving level as a percentage of BNP.

6. Sudden explosion of Mutual Funds' activities.
7. Ever-increasing popularity of equity stock and bonds.

Branding

Branding is a major input in the marketing strategy of commercial products. Brand is a broad term that includes practically all means of identifying a product e.g., the LIC logo, Citibank's "City" schemes, Canara Bank's "Can"- schemes. Brand name is that part of the brand which can be verbalized e.g., Citihome, Canstar etc. Brand mark is that part of the brand which can be recognized but is not utterable e.g., the LIC folded hands symbol, Citibank's distinctive lettering etc. These constitute the logo of the company.

The concept of branding of financial products offers several advantages. Brands command customer loyalty for the product. Each brand has a consumer franchise which can be used to its advantage. Financial products aim to attract the investor to bring his savings into the market. This is quite a delicate task because the investor's money is involved. Most of the financial instruments are very similar. This is where the advantages of branding can be exploited. Branding can help in creating differentiation between the various financial products. It can help create a distinctive identity for the financial product or public issue. Branding can also help to create some insulation from the competitor's promotional strategy.

In umbrella branding, the advertising and promotion costs of subsequent products can be reduced considerably. This is because the brand-name recognition and preference is already there. For instance, if Indian Bank comes out with another scheme in its "Indsagar", "Indmoti" series, it does not have to start advertising from scratch to popularize it. Investors will know that this scheme is from Indian Bank and the overall thrust and confidence which had been built-up for the previous schemes will be extended to this too.

Developing a brand requires a great deal of long term investment especially advertising, promotion etc. It is quite an expensive proposition and hence is worth while mostly for large public issue or long tem plans like a bank' s schemes. Nonetheless, the advantage of

branding can easily be exploited by the marketers of financial products. With a little bit of caution and planning, branding can be as successful for public issue as it is for toothpaste or cigarettes.

10.8 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 the 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 transportation 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 imparted adequate training. For this, the bankers should have an in-depth knowledge of behavioural management. Up till now, we find untrained staffs. 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 need 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 need a scientific approach.

10.9 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 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 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 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 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.

Elements of Mutual Fund Marketing

Marketing of services has been considered the most vital area of operation of Mutual Fund industry in view of keen competition of similar/ alternative products. In a newly developed

market like India where investor awareness is yet to take shape, Mutual Funds have an important role to educate investors about the manifold advantages of investment in Mutual Funds. Therefore, a well planned marketing strategy to mobilize savings by educating investors and creating confidence about safety and return needs to be designed.

In a changing environment of financial services, mutual fund marketing has to maximize customers satisfaction by optimizing internal and external efficiency in resource use, competitive product development, cost efficient distribution system etc. It must be remembered that marketing plan for Mutual Fund services need to be based on a correlation matrix of firm product-customer relationship because of every nature of products which are intangible and have the elements of inseparability and perishability. Keeping in above correlation in view the marketing plan for mutual fund should include broadly the marketing elements which are given below:

1. *Product Planning*: Product line to be offered-quality, design, range of services, etc.
2. *Branding*: Selection of Product name, brand policy like individual family or corporate brand.
3. *Pricing Policy*: Price of units, rates of incentives, rates of commission to agents/brokers.
4. *Distribution Policy*: Channel to use for selling the products-direct to the customers or through intermediaries like agents, brokers, etc.
5. *Promotion*: Promoting sales through advertisement, road shows etc.
6. *Servicing*: After sales services-direct by the Mutual Funds to the customer or through intermediaries like Registrars of the issue etc.

These are the important elements of marketing mix to form the marketing strategy to be directed to achieve corporate goals.

Mutual Funds provide financial services which are intangible like any other financial services and the quality of services depend not only on product but also on performance. These services can also be performed like many other financial services.

Mutual Funds Products (i.e. schemes) are basically investment objective oriented and the savings mobilized by them are invariably need to be invested in the instruments (shares, debentures, etc.) projected in the schemes. There is little scope of flexibility.

For designing and developing a new product one should take the help of market research to assess the needs of the customers (market potential), availability of existing product and future growth in demand. Before formally launching a new product, test marketing can be conducted. Price of Mutual Fund products are inextricably linked with return. In India face value of units of most of the Mutual Funds is Rs. 10/-. However, while deciding pricing, incentives, brokerage agency, commissions are also to be decided in advance because the expenses towards these items will effect the ultimate returns to the investors.

Success would greatly depend on the appropriate distribution and promotion strategy. Identification of right market segments of the product, selection of appropriate distribution channel and promotional aids, will help marketing the products.

Identification of market is crucial to take further action regarding promotion and distribution of the products. Market segments will be identified on the basis of nature of the product, direct and indirect benefits of the product on the one hand and behaviour/ attitude of the customers, product usage rate etc.

Communication is important and communication through advertisement is the most important promotional aid for any Mutual Fund. Once target group and their characteristics, value tastes etc., are identified appropriate advisement mix (T.V., Radio, financial/ general newspaper, leaflets, etc.) is decided in order to reach maximum number of potential customers, and relative importance and intensity of campaign would depend on the nature of the product.

Marketing of services is significantly influenced by the quality of service and interpersonal relationship between customers and service organization.

Service has great significance in Mutual Funds like any other financial service industry.

Market orientation of the product and customer orientation of servicing are the two key factors in the competitive world of financial services. We have mentioned that expected rate of return remaining more or less same, it is the service quality which will differentiate one from other. In India most of the mutual funds provide after sales service through a mix of external agencies and international service department, through basic reliance is on the external agencies who are specialized in the job. This is probably due to absence of sufficient number of such agencies, with trained and qualified staffs. However, it will be better if the Mutual Funds can develop their in house expertise to render after sales services in a cost effective manner.

10.10 SUMMARY

Finally, it is concluded that like a manufacturing organization service organization also needs managerial approach in the marketing of their services. It has become essential for the marketer to analyze the market, segment the market and frame the marketing mix according to the background of customers satisfaction. It is pertinent as well as possible that tangibility has been brought in the services through quantitative improvements in the services offered. Further the service organization needs product planning and development. The standardization of services would need proper planning of services and close supervision and control.

10.11 KEYWORDS

Finance: Funds of monetary resources needed by individuals and industrial houses or the government for meeting their respective requirements.

Financial services: Various services related to finance which are offered by different financial institutions.

Mutual fund: A fund operated by an investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities, or money market securities. These funds offer investors the advantages of diversification and professional management.

10.12 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. “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.
4. Highlight the similarities and dissimilarities between marketing of banking services and mutual funds.

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LESSON: 11

INTERACTIVE AND RELATIONSHIP MARKETING

Subject: Marketing of Service

Paper Code: MM-411

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STRUCTURE

- 11.0 Objectives
- 11.1 Introduction
- 11.2 Interactive Marketing
- 11.3 Moments of Truth
- 11.4 Service Interaction Process

- 11.5 Service Failures and Recovery Strategies
- 11.6 Relationship Marketing
- 11.7 Developing Relationships
- 11.8 Summary
- 11.9 Keywords
- 11.10 Self Assessment Questions
- 11.10 References / Suggested Readings

11.0 OBJECTIVES

After going through this lesson, you will be able:

- To learn about the dimensions of interactive marketing
- To fathom out the difference between traditional marketing and modern marketing practices
- To understand the concept and benefits of relationship marketing.

11.1 INTRODUCTION

Interactive marketing takes place between employees of the service organization and service consumers. Through internal marketing, service providers prepare customer-contact employees, physically and mentally, to perform the service. Consumers are also educated and trained to participate in service production and consumption through external marketing. The actual process of service production, delivery, and consumption takes place simultaneously during the interactions of contact employees and consumers. The meeting between contact employee and service consumer is called 'service encounter'.

Customer Relationship Management is gaining importance in corporate circles in recent years. It is emerging as the business theme for the 21st century. Companies have realized the value of long-term relationships with individual customers and other business partners in the light of rapid change in technology and customer expectations. Enhancing lifetime value of customers and developing a relationship with profitable customers has become the central focus of companies' strategy. The growth of service sector, in fact, promoted the development of CRM. The role of middlemen is negligible in service sector, as services are

produced and delivered locally in buyer-seller interactions. This feature of services facilitated a greater emotional bondage between the service provider and the service user. Building relationships and promoting them has become an integral part of the service sector.

11.2. INTERACTIVE MARKETING

Interactive marketing may be defined as the managerial process through which a series of interactions between service provider and consumer are organized to facilitate efficient participation in service production and consumption that satisfies the needs and wants of the consumers and creates positive customer-perceived quality. The employees and consumers have their own ways of perceiving the quality of service performance. In most cases, these two perceptions may not be on similar lines. A customer's perceived quality ultimately is the result of the interactive process. Interactive marketing is termed as a 'process' in services marketing. Its significance is reflected by its inclusion as one of the seven components in the services marketing mix.

The Basic Service Package (BSP) involves a series of activities a customer has to pass through. The customer will interact with a variety of variables. Each variable has the capacity to influence the quality perception of the customer. The interacting points from the point of view of a service consumer are:

- *Physical setting of the service outlet*- Consumers interact with the location, exterior of the service outlet, interior service layout and other elements of the physical environment.
- *Tangibles*- The tools, equipment, furniture and so on.
- *Systems*- The queue system, process system, billing and payment system, recording system, communication system and so on.
- *Co-customers*- The customers who are also seeking service from the service provider.
- *Contact employees*- The employees at the service counters for interaction with customers.
- *Other employees on the line of visibility*- The support employees who may not

interact with customers directly but are visible to the customers.

- *Signage and other communication material*- Sign boards directions, displayed rules and regulations, cautions and other material.
- *Other facilities*- Drinking water, toilets, ventilation and so on.

11.3. MOMENTS 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-focussed 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 focussing 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 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.

11.4 THE SERVICE INTERACTION PROCESS

The service interaction process can be broadly classified into three phases. Lehtinen (1983) renamed these phases as the joining phase, the intensive consumption phase and the detachment phase.

(a) The joining phase-The joining phase is the first phase of the service consumption process. Some studies identified a pre-joining phase also wherein marketing personnel interact with the customers and persuade or sometimes sell the service. Anyhow, when services are provided at the service outlet, the customer begins with the joining phase. The two important activities in this phase are entry and registration.

At the entry phase, the customers look for parking place. They also interact with the watchman or parking boy and seek assistance. Easy identification of the entry point, the ease of entry and courteous welcome influence the quality perceptions of the consumer. During registration, easy identification of the registration counter, the amount of information to be recorded, the speed of the recording process, the equipment used for recording, the employee and customer roles during recording, the instruments used, the courteous interaction and empathy from the side of contact employee, the understanding of customer problems, the space, furniture and the layout at the registration counter and the direction to the next contact are the issues that influence the consumer.

At the entry level as well as during registration, consumers may need to wait for some time. How the wait line is organized and what facilities are provided for managing the waiting time also matter at this phase. Providing well furnished waiting rooms, latest magazines and entertainment facilities reduce waiting pressure.

(b) The intensive consumption phase-This is a critical phase wherein the service process aims at solving consumer problems. The first step in the process is the perfect diagnosis of the problem. Contact employees will discuss with the consumers and try to define the consumer's problem accurately by getting confirmation from the service consumer. The contact employee proposes the service process and also the cost involved in the service process. The service process will be finalised in consultation with the service consumer and the agreement on Basic Service Package (BSP) results. The service production process

starts with defined roles being performed by both parties. If the production process is split into phases, the customers may be directed to move from one phase to another. Precautions are communicated to customers to make participation effective. There are many factors that influence the effectiveness of the process at this stage. Documentation, queue system, time consumed, accuracy, transparency, customer approval, easy flow, equipment used, performance of the equipment, exclusivity (privacy), flexibility and exceptions are some of the factors that influence the quality.

(c) **Detachment phase**-There are two activities that generally take place during this phase. They are payment and registration for next visit. The payment system that is designed, whether cash, credit, installment, office billing, credit card and so on, is the factor that influences the customers. The registration system for the next visit, exit facilities and collection of feedback are the other aspects that need to be managed properly.

(d) **Integration of the phases**-In the service interaction process, the phases need to be integrated effectively so that the phase-to-phase delays, communication gaps and flow errors can be either eliminated or minimized. Continuous research is necessary to identify service gaps and also to take measures at the right time to eliminate the gaps.

11.5 SERVICE FAILURES AND RECOVERY STRATEGIES

(a) **Service failure**-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.

(b) Customer complaints-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.

(c) **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 level 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.

11.6 RELATIONSHIP MARKETING

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 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 focussed on 'creating exchanges' rather than managing long-term relationships with customers.

Maturing markets, lower population growth, and global competition have forced managers to examine the costs of winning new customers versus retaining their old ones. We now see the focus of marketing shifting to managing relationships with customers. The following definition of marketing captures the new spirit:

Marketing is to establish, maintain, and enhance (usually but not necessarily always long-term) relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfillment of promises.

The concept of promises made and kept by both sides is a key to this definition. The promises made by the seller include the obvious ones that are part of any selling contract, such as product quality, delivery and inventory management, attendant services and others, but for a long-term relationship they must also cover deeper commitments to the buyer's success. The promises made by the buyer also must be beyond those of the contractual terms of payment.

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.

11.7 DEVELOPING RELATIONSHIPS

Successful relationship marketing depends on the development of four components: products that will build loyalty, employees who are adept at relationships, the appropriate set of customers, and measurement to monitor and improve. We will explore each of these components in turn.

(a) Products

The basis of the new marketing concept is still delivering products that customers want. Because winning new customers is harder than keeping familiar ones, the marketer's best strategy is to develop products and services for the evolving needs of current customers, rather than passing them off to other sellers and trying to find new customers for the same old products. For example, insurance companies provide a range of products that become relevant at different times in a customer's life. They may be able to initially sell a young individual automobile insurance. As the person matures and his or her needs change, the company should be alert to the opportunities for selling homeowner's insurance and investments. As the person reaches maturity, services such as health insurance and retirement planning assistance become more important.

Relationship marketing requires continued attention to the needs of customers, and constant development of new products and services to address their evolving needs.

(b) Employees

Relationship marketing obviously involves the efforts and skills of more individuals than just those in the sales or marketing departments. The need for service and support implies that employees in design, engineering, and manufacturing and/or service delivery must also be intimately acquainted with the needs of the customer and be prepared to deal with them. This observation is true for almost any support function in the company. For example, information systems may need to be coordinated to enhance ordering, billing, and other data exchange with customers. Each of the people involved will contribute to the image of the vendor among the buyer's employees. Gronroos has spoken of the need to train all employees of service firms to be 'part-time marketers', because their interactions with customers are important in maintaining corporate relationships. But it is also true for many employees of manufacturing firms, given that relationships are built upon personal interactions and serving the customer's needs.

A study of the role that sales representatives play as relationship managers between firms found that their training should specifically address several skills. In particular, training in trust-building activities, and skills in questioning and listening to customers are necessary. Employees must also be trained to calculate the value of customer relationships, so that they can allocate their efforts appropriately. Not every customer is worth the cost of establishing a long-term relationship.

(c) Customers

Not all customers are suitable for long-term relationships. Customers worth pursuing are those that have the greatest lifetime value, and, in particular, those for whom the lifetime value exceeds the cost of acquiring them as customers.

Loyalty-based marketing should not be confused with short-term price promotions that seek to generate momentary bursts in sales. They should be carefully focused to identify customers who are likely prospects for long-term relationships. Demographic factors and past purchase histories can be useful in this search. In particular, by identifying segments of similar customers, the firm improves its prospects of tailor-making services that generate high loyalty. For example, older people tend to be more loyal banking customers and also have many similar service needs, whereas younger customers with low balances

can be notorious brand switchers.

Keeping information on customers-Identifying and keeping in touch with potentially loyal customers is essential, and computer technology now makes it possible on a scale unimaginable just a few years ago. In fact, an excellent database and the capability to organize, analyze and segment it are absolutely essential to make relationship marketing work. The file must not only contain basic names and addresses but purchase histories and other relevant information that will allow the firm to anticipate a customer's future needs. Determining the value of a customer-How can one decide which customers are profitable enough to keep to pursue? Myer recommended a measure of customer value called Customer Return on Assets (CRA). The basic idea is to measure the profitability of relationships with individual customers, something often overlooked by accounting systems that tend to focus more on product performance. Systems that measure revenue only, combined with a dedication to high service levels at any cost, are likely to lead to terrible misallocations of effort by the sales force and other customer relations personnel. Relationship managers should also be tracking the costs of maintaining relationships. These costs can be traced to individual accounts and include sales costs, service costs, and other costs related to serving the particular account. Specially teams can be assigned to deal with customers with similar service needs, a practice that may help reduce the costs of selling to them and managing their accounts.

(d) Measurement

As with any investment, measures of outcome are necessary to control the process, to assess its success, and to provide feedback for assessing the relative effectiveness of various programs. Most relationship-building programs will not produce measurable bottom-line results for several years.

Currently there are no standardized approaches to measuring the value of a firm's customer relationships. The subjectivity of the judgements necessary to quantify this concept makes it an unlikely prospect for standardized accounting standards in the near future. Therefore marketing must press forward in its effort to find useful measures to track and control this key activity.

11.8 SUMMARY

Interactive marketing is nothing but managing the process on stage. An efficient performance in interactive marketing can save a poorly designed or defective technical product. But an effective technical product with a poor interactive marketing cannot yield the desired results. The foundation of interactive marketing is the integrated efforts of internal marketing and external marketing. The moments of truth that take place at the service encounter are to be identified, classified and delegated to service employees for their efficient management. Consumers cannot be controlled, but can be influenced. Service organisations should focus on employees and provide them the necessary support for performance. Whenever there is a service failure, service organisations should provide quick recovery options.

Service organisations need to change from their traditional marketing philosophies that are transaction-oriented to relationship-oriented marketing philosophy. They should work on building, maintaining and enhancing customer relationships. Building relationships and promoting them has become an integral part of the service sector.

11.9 KEYWORDS

Service encounter: The contact between employees and customers. This has also been referred to as moments of truth.

Interactive marketing: The ability of the customer contact employees to manage interaction with the customer at different stages of customer – marketer interface.

Relationship marketing: It includes all the tools and practices which help an organization in establishing and maintaining good relations with key customers.

11.10 SELF ASSESSMENT QUESTIONS

1. What is interactive marketing? Also explain the service encounter.
2. Discuss in detail the moments of truth and its management.
3. Write a detailed note on service interaction process.
4. Explain the concept of relationship marketing with suitable illustrations.

5. Discuss the components on which a strong relationship marketing depends.

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