

Service Marketing

(As per the Revised Syllabus 2016-17 of Mumbai University for T.Y.BMS, Semester – V)

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PREFACE

This text book is for the students and professionals who recognize the vital role that Services play in the economy and its future. The developed economies in the world are now dominated by the Service Sector. The role of Services is growing in the developing economy day by day. The product selling company is also appreciating the role of services and now striving to make services as their unique selling proposition. Services have now become one of the important differentiating factors for the companies in the marketplace. We wrote this book in recognition of the ever-growing importance of the services and the unique challenges faced by the services managers of services.

As per the analysis of data compiled from International Labour Office and Organization for Economic Cooperation and Development a close correlation exists between the level of economic development in an economy and the strength of its service sector although it has to be admitted that one can never be certain whether the reverse would be true that a strong service will be a driver for an economy highly developed nations like USA, UK and Canada had a very high percentage of jobs in the service sectors as compared to the economies of developing countries like Bangladesh, Mexico or Ethiopia. Initially, in developed countries it was manufacturing jobs that started taking flight. Services play a central role in the economies of both developed and developing countries. They account for over half of the gross domestic products of all developed economies and constitute the single largest sector in most developing economies. Main reasons behind the growth of services include: rapid urbanization, the expansion of the public sector and increased demand for intermediate and final consumer services. Access to efficient services has become crucial for the productivity and competitiveness of the entire economy. The successful growth of the primary and secondary activities in the economy, to a large extent, depend on services offered by banking, insurance, trade, commerce, entertainment, maintenance of machinery and equipment and numerous other services categorized as tertiary activities.

The present book is about the organization, operation and growth of the service sectors in India. A student of BMS often finds that service policies can be understood much better, and they can be analyzed more realistically if he has a good understanding of the actual functioning of the various parts of the Service Sector Management. This book highlights the growth of the service sector, in respect of its size, changes in its organizational structure, and the occurrence of diversification and innovations. While doing so, it combines the factual and analytical aspects of the discussions in a balanced manner. The merit of this book is that it gives the reader a fairly complete idea about the functioning of the whole set of banking and other services in covering all their major aspects in single volume. In this edition an effort has been made to incorporate professional examples at relevant places in the book.

It is a matter of great pleasure to present the first edition of this book on Service Sector Management to the students and teachers of Third Year Bachelor of Management Studies course started by University of Mumbai. This book is strictly designed as per new syllabus from the academic year 2016-17 guidelines. The book presents the subject matter in a simple and convincing language.

In keeping with the aims of the book, we have attempted to present the text in a lucid and simple style; the treatment is comprehensive and by and large non-mathematical. Another notable feature of

this volume is that the discussions of the concepts and theories are invariably followed by exhaustive illustrative problems. To test the understanding of the readers as also to enable them to have sufficient practice, a large number of exercises have also been given at the end of the chapters.

The syllabus contains a list of the topics covered in each chapter which will avoid the controversies regarding the exact scope of the syllabus. The text follows the term wise, chapter-topic pattern as prescribed in the syllabus. We have preferred to give the text of the section and rules as it is and thereafter added the comments with the intention of explaining the subject to the students in a simplified language. While making an attempt to explain in a simplified language, any mistake of interpretation might have crept in. This book is a unique presentation of subject matter in an orderly manner. This is a student-friendly book and tutor at home. We hope the teaching faculty and the student community will find this book of great use. We are extremely grateful to Mr. K.N. Pandey of Himalaya Publishing House Pvt. Ltd., for their devoted and untiring personal attention accorded by them to this publication. We owe a great many thanks to a great many people who helped and supported us during the writing of this book which includes Principal, HOD, and Students of BMS Section. We are thankful to our all family members for constant support and motivation. We are also grateful to our Principal, Colleagues, Library staff and my dear students and friends for encouraging us to write the book. We welcome suggestions from students and teachers for further improvement of quality of book

Authors

SYLLABUS

Service Marketing

**BACHELOR OF MANAGEMENT STUDIES PROGRAMME AT SEMESTER V WITH EFFECT
FROM THE ACADEMIC YEAR 2016-2017**

[60 Lectures: 3 Credit]

MODULES AT A GLANCE

Sr. No.	Modules	No. of Lectures
1	Introduction of Services Marketing	15
2	Key Elements of Services Marketing Mix	15
3	Managing Quality Aspects of Service Marketing	15
4	Marketing of Services	15
	Total	60

OBJECTIVES

Sr. No.	Objectives
1	To understand distinctive features of services and key elements in services marketing
2	To provide insight into ways to improve service quality and productivity
3	To understand marketing of different services in Indian context

Unit No.	Name of the Topic
Unit 1	Introduction of Services Marketing
	<ul style="list-style-type: none"> • Services Marketing Concept, Distinctive Characteristics of Services, Services Marketing Triangle, Purchase Process for Services, Marketing challenges of Services • Role of Services in Modern Economy, Services Marketing Environment • Goods vs Services Marketing, Goods Services Continuum • Consumer Behaviour, Positioning a Service in the Market Place • Variations in Customer Involvement, Impact of Service Recovery Efforts on Consumer Loyalty • Type of Contact: High Contact Services and Low Contact Services • Sensitivity to Customers' Reluctance to Change
Unit 2	Key Elements of Services Marketing Mix
	<ul style="list-style-type: none"> • The Service Product, Pricing Mix, Promotion & Communication Mix, Place/Distribution of Service, People, Physical Evidence, Process-Service Mapping- Flow-charting • Branding of Services – Problems and Solutions • Options for Service Delivery
Unit 3	Managing Quality Aspects of Services Marketing
	<ul style="list-style-type: none"> • Improving Service Quality and Productivity • Service Quality – GAP Model, Bench-marking, Measuring Service Quality -Zone of Tolerance and Improving Service Quality • The SERVQUAL Model • Defining Productivity – Improving Productivity • Demand and Capacity Alignment
Unit 4	Marketing of Services
	<ul style="list-style-type: none"> • International and Global Strategies in Services Marketing: Services in the Global Economy- Moving from Domestic to Transnational Marketing • Factors Favouring Transnational Strategy • Elements of Transnational Strategy • Recent Trends in Marketing Of Services in: Tourism, Hospitality, Health-care, Banking, Insurance, Education, IT and Entertainment Industry • Ethics in Services Marketing: Meaning, Importance, Unethical Practices in Service Sector

QUESTION PAPER PATTERN

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1	Introduction of Services Marketing	1 – 39
2	Key Elements of Services Marketing Mix	40 – 132
3	Managing Quality Aspects of Services Marketing	133 – 190
4	Marketing of Services	191 – 270

Chapter 1

Introduction to Services Marketing

Structure:

- ☞ Introduction
- ☞ Role of Services in Modern Economy
- ☞ Factors Contributing Growth of Service Sector in India
- ☞ Distinctive Characteristics of Service
- ☞ Goods Service Continuum
- ☞ Service Marketing Triangle
- ☞ Problem Arising from the Characteristics
- ☞ Marketing Challenges of Service
- ☞ Services Marketing Environment
- ☞ Goods Versus Service Marketing
- ☞ Consumer Behaviour in Services
- ☞ Positioning of Services
- ☞ Steps in Developing a Positioning Strategy
- ☞ Review Questions

Services play a vital role in the economy. Advanced economies of the world are dominated by services. Services has become a critical success factors for all the companies. Even the product selling companies are not developing services as their core competency to compete in the market.

With the ever growing importance of services and the challenges which today's managers are facing everyday, it becomes imperative to understand and appreciate the fundamentals of services. Service Marketing is different from the Product Marketing because of the unique characteristics of services. Everyday the service managers face different challenges to provide higher value to their customer, to retain them with the company and to grove their customer base.

Everyday we deal with services, whether use take a taxi to office, go to a beauty parlour for hair cutting and grooming, talk to air phone, use our debit/credit cards for making payments, go to a doctor for medical examination, orders a food with a restaurant, send a document/gift through courier, access internet for browsing or go to a multiplex. We interact with services every none and then. It has become the part and parcel of our life. Hence, we cannot avoid ourselves to expose with services of any kind in our day to day life.

**We use an array of services
everyday**

• Talking to phone	• Bookstore
• Credit/Debit cards	• Post office
• Riding a bus	• Internet access
• ATM machines	• Bank
• Hair cut	• Food
• Medical examination	• Entertainment
• College	
• Libraries	
• Canteen	
• Hostel	

The service sector of an economy is also called as the Tertiary sector. It is one of the 3 economic sectors, the other being the secondary sector (as same as manufacturing) and the primary sector (agriculture, fishing and extractions such as mining) The tertiary sector of industry involves the provision of services to other businesses as well as final consumers.

Services may involve the transportation of goods from producer to a consumer (as may happen when Blue Dart delivers the orders made through snapdeal.com to the doorstep of consumer), or may involve the provision of service (such as watching Salman Khan's movie in the PVR), The goods may be transformed in the process of providing the service (as happens when you place an order with KFC).

From the last 10 decades, there has been a substantial shift from the primary and secondary sectors to the tertiary sector in developed and developing countries. We may call this shift as Tertiarisation. The tertiary sector in now the largest sector of the economy is the western world, and is also the fastest growing sector.

INTRODUCTION

Most organizations provide a service of some sort or other. For organizations such as airlines, trains, universities, car rentals, etc., service represents a major part of what they have to offer. They are known as service organizations. Others who are in manufacture of products service is of lesser importance albeit significant importance. There are particular problems in services industries namely – tangibility, inseparability, variability, and perishability. Services have to be contended with uncertainties over customer involvement and what they expect. A service is an activity or series of activities of more or less intangible nature that normally, but not necessarily, take place in interactions between the customer and the service employee and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems.

A service is an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is essentially intangible and does not lead to ownership of any of the factors of production.

Put in most simple terms services are deeds, processes and performances. Services include all economic activities whose output is not a physical product or construction is generally consumed at

the time it is produced and provides added value in forms that are essentially intangible concerns of its first purchases. It encompasses a wide range of industries.

The best way to define services is to distinguish between core and peripheral elements of the services. The core services offering is the necessary outputs of an organization which are intended to provide the intangible benefits customers are looking for. Peripheral services are those which are either indispensable for the execution of the core services or available only to improve the overall quality of the service bundle.

Services include all economic activities whose output is not physical product or construction, is generally consumed at the time it is produced and provides added value in forms that are essentially intangible concerns of its first purchaser, e.g., are transportation and public utilities, hotels, personal services, etc.

“According to Kotler, Armstrong Saunders and Wong (1999) services are activity or benefit that one party can offer to another which is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.”

Christopher Lovelock defined services as an economic activity that create value and provide benefits for customers at specific times and places as a result of bringing about a desired change in or on behalf of the recipient of the services.

Services are:

- Deeds, processes and performances – examples might include transportation, utilities, or media;
- Different to goods or products – they have different, defining characteristics;
- Often linked to goods or products – to varying degrees.

Services fall into three broad categories.

- (a) Pure standalone services like physiotherapy, counselling and consultancy
- (b) A combination of services and goods like restaurant, retailing, etc.
- (c) Service as a component of goods in the total marketing-mix, like after- sales services, services and repair of home appliances, etc.

Thus, service is a distinct form and yet also simultaneously a part of product marketing-mix.

ROLE OF SERVICES IN MODERN ECONOMY

Service Sector in India

The service sector has contributed around 52% of India's GDP in 2014-15. In value terms the sector has contributed US \$ 783 bill to the 2014-15 GDP (at constant price) and is growing at compound annual growth rate (CAGR) of 9% which is faster than the overall GDP CAGR of 6.2% in the past four years.

The service sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment flows, Contributed significantly to exports as well as provided large-scale employment. India's service sector covers a wide variety of activities such as trade, hotel and

restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal service, and construction services.

According to the Department of Industrial Policy and Promotion (DIPP), the Indian services sector has attracted the highest amount of FDI equity inflows in the period April 2000 – September 2015, amounting to about US \$ 45.38 bill which is about 17% of the total foreign inflows.

Example: Amazon, the world's largest online retailer plans to invest ` 31,700 Cr (US \$ 4.76 bill) in India in addition to the US \$ 2 bill investment it committed 2 years ago, in expanding its network of warehouses, data centers and increasing its online marketplace.

Example: Taxi Service aggregator OLA plans to double operations to 200 cities in current **fiscal** year. The company, which is looking at small towns for growth, also plans to invest in driver ecosystem, such as training centres and technology upgrade, besides adding 1500-2000 women drivers as part of its pink cab services by women for women.

A KPMG survey of BRIC countries (Brazil, Russia, India and China), has revealed highest confidence among the service sector in India with 60% of the Indian firms expect rise in activity, a fine notch above than that of China.

FACTORS CONTRIBUTING GROWTH OF SERVICE SECTOR IN INDIA

Let us now see what are the factors contributing to the growth of the Service sector in India.

- (a) **Government Policies:** Government has taken lot of **initiatives** to promote the service sector in India. Especially after the economic reforms of 1991, we have seen some significant steps taken by the government to promote the service sector in India. Government regulations and privatization has given a boost to the service sector in India.
- (b) **Social Changes:** the last 2 decades in India has seen a radical change in the behaviour and expectations of the consumers. The expectations of the Indian consumers are an ever high. We have seen the ever growing and highest number of affluent people in India in the new millennium. Now consumer are not only purchasing the product but now they look for an experience.

Example: Starbucks not only sell one of the finest roasted coffee but also provides an incredible experience which they call as an “Starbucks Experience” to their customers. The world's largest coffee chain believes to provide an outstanding customer service to their customers.

- (c) **Business Trends:** The trends of during business is also changing rapidly. The manufactures are now adding value through services. The corporate has initiated the total quality revolution. Now the companies aims at providing better quality of services in each and every touch point to their audience. The growth in the franchising business add yet another dimension to improve and standardise the services.

Example: McDonald's never compromise on their QSCV (Quality, Service, Cleanliness and Value) principles while giving their franchise. The franchisee and the staff are trained by the company to provide the standard service throughout the chain of the McDonald's.

- (d) **Advances in Information Technology:** The growth of Internet has immensely benefitted the service firms to improve the service. The convergence of computers and telecommunications has proved to be a boon for the service firms and customers. It becomes easier and faster for the service firms to provide quality services to the customers.

Example: ICICI Bank offered instant Account opening services to their customers whereby the sales executive of ICICI go to meet their customer with a tablet where the executive can click the photograph of the customer, fill up the account opening form instantly and open a Bank Account then and there.

- (e) **Internationalization:** After opening up of the boundary through globalization, we have been some service excellence firm to come to India, Companies like Dell, Samsung, Accenture, IBM, etc are working on a transnational basis and assimilate the best practices across globe and raise the level of service provided to the customers. International mergers and acquisitions are yet another contributing factor for the growth of the service sector.

DISTINCTIVE CHARACTERISTICS OF SERVICE

Service, marketing academics and practitioners argued that services required special treatment as a result of their distinctive characteristic; intangibility, inseparability, heterogeneity and perish ability.



These characteristics were outlined during the “crawling out” stage.

Intangibility refers to the fact that a large component of many service offers is immaterial or intangible and cannot be presented in a concrete manner to consumers prior to purchase. For example, a customer cannot touch the aerobics class prior to attending the class neither can assess the quality without attending the class.

Inseparability refers to the notion that, in much service operation the production and consumption cannot be separated, that is, a service is to great extent consumed at the same time as it is produced. For example, a hairdresser may prepare in advance to carry out the service, but most of the hairdressing service is produced simultaneously as the customer consumes the service.

Heterogeneity is closely related inseparability as it is very difficult to apply quality standards to services to ensure an identical service output, when so much depends on the cooperation and participation of individual customers.

Perishability refers to the fact that unlike physical goods, services cannot be stored. An appointment with the dentist, in contrast, at a given time on a given day, cannot be stored and offered again to the customer.

“Scurrying About” Stage:

In the Scurrying about stage between 1980 and 1985 efforts were made to classify services more clearly and attention focused heavily on the crucial issues of managing quality in service operations. Zeithmal, Berry and Parasuraman developed their pioneering Gaps Model of services which highlighted the importance of efforts made to assess the quality in services. Other topics emerged as being particularly important to the management of service organizations, including a better understanding of the components of service encounter, relationship marketing, internal marketing.

Booms and Bitner developed their expanded marketing mix for services which took into account the distinctive characteristics of service identified in the “crawling out” stage. Booms and Bitner added three more Ps to the original marketing-mix to make it more appropriate to services: People, Process, and Physical evidence.

“Walking Erect” Stage: In the walking erect stage since 1986 there has been almost no discussion of whether services are different from goods, but rather than the literature has focused on specific marketing problems of service organizations. They include consideration of service encounters, Service Design, Perceived Service quality and Customer Satisfaction, Internal Marketing and Relationship Marketing.

“Galloping stage”: In this stage since 2000 there has been an increase in the growth of service sector and services are the main contributors of the national GDP of any country.

A detailed insight of the distinctive characteristics of services is provided below:

1. Intangibility
2. Inseparability
3. Variability
4. Perishability
5. Simultaneity
6. Heterogeneity
7. Lack of ownership

Intangibility: Services cannot generally be seen, tasted, felt, smelt, heard before being bought. The potential customer's is unable to perceive the service before the service delivery. Service is totally intangible and cannot be seen what is done.

Intangibility presents problems in the sense that the customer may experience difficulty in knowing and understanding what is on offer before and even after in receipt of the service. The challenge for a service provider is to make the service tangible which implies resort to make some form of measurement and to provide tangible evidence, e.g., computerised representation of hairstyle or a university prospectus. Service cannot be inventoried and therefore fluctuations in demand are

often difficult to manage, e.g., resort owners have same number of rooms to sell year around but demand varies during peak and non-peak seasons. Services cannot be easily patented and new service concepts can therefore be easily copied by customers. Services cannot be readily displayed or easily communicated to customers, so quality may be difficult for consumers to assess. Decisions about what to include in advertising and other promotional campaigns are challenging as is pricing. The actual cost is difficult to be determined and so price quality relationship is complex. Levitt has suggested that there are no such things as service industries, only industries where the service components are relatively greater than those in other industries. Similarly, Shostack has argued that there are few industries or activities that are purely goods based or purely services based, and presents a continuum from tangible dominant goods to intangible dominant services. Kotler identifies four distinct categories of offerings, ranging from purely tangible goods, to tangible goods with accompanying services, to a major service with some accompanying goods, to pure services.

An assessment of a random selection of service activities within a university registry allows the overall degree of tangibility or intangibility of the services to be conceptualized and the management implications to be more easily understood.

From this example, it would seem appropriate to consider a university registry as the provider of predominantly intangible services with tangible aspects that demonstrate the service. Different services carry with them greater or lesser demonstrable tangible aspects.

Activity	Intangible Aspects	Tangible Aspects
Maintain manual and computerized records for students	Student records up to date and accurate, comprising basis for all service operations	Printouts and reports, standard or specialized
Preparation of induction week programme	Systems set in place for enrollment/ induction of students	Programmes typed and circulated to students and staff
Certification of student statuses	Student is confirmed to be enrolled and eligible for access to a range of internal and external services	ID card or letter of enrollment
Issue standard fee installment plans	Student is able to pay fees by installment rather than lump sum and has full enrollment status as a consequence	Fee payment plan
Provision of inquiry service for students	Information and advice given to assist choice or decision- making	Leaflets or notes, on occasion
Certification of student status, for bank account	Student provided with access to open a student bank account	Letter confirming status
Provide guidance on assessment regulations to colleagues	Customer acquires knowledge/ information	Notes on occasion
Issue results for students	Assessment process completed. Student acquires feedback on performance and future requirements	Results sheet/transcript

Inseparability: There is marked difference between physical goods and services in terms of the sequence of production and consumption.

SEQUENCE OF PRODUCTION AND CONSUMPTION

Physical Goods	Services
Production	Sale
Storage	Produced and consumed at the same time
Sale	
Consumption	

Goods are first produced stored finally sold and consumed, whereas services are first sold then produced and consumed simultaneously. For various services at production site customers presence is must, e.g., counselling, rail travel, hotels, etc. Some services are produced and delivered in the absence of customers, e.g., carpet cleaning, plumbing, etc. Whatever be the nature and extent of contact the potential for inseparability of production and consumption remains.

The involvement of customers in production and delivery of services implies service provider must take care in what is being produced and delivered. Proper selection and training of customer contact personnel are necessary to ensure the delivery of quality of services. Production and consumption are said to be separable, but for a service production and consumption are said to be inseparable where both must meet at a time and place which is mutually convenient in order that the producer can directly pass on service benefits, e.g., the service of the ATM machine can be realized if producer and consumer interact.

Inseparability has number of marketing implications for services. First, goods are generally first produced then offered for sale and finally sold and consumed, inseparability causes this process to be modified for services. Services are sold first then produced and consumed while the method of goods produced is to a large extent of little importance to the consumer, production process are critical to the enjoyment of services. All service encounters have similarities: The “service encounter”, the provision and consumption of a service, is central to service experience and an understanding of service encounters involves an appreciation of a complex set of behaviours on the part of all involved in them.

- **Waiting time:** time spent in queues or in-process delays;
- **Personal interaction:** between participants, service provider, customers and others present;
- **Expectations and perceptions:** of service adequacy and quality.

Five dimensions to service encounters can be conceptualized:

- **Time:** The temporal duration of the encounter (long/short);
- **Physical proximity:** The closeness of contact (direct/remote);
- **Participation:** Level of customer involvement in the service process (high/low);
- **Engagement:** Emotional attachment to or interest in the service being consumed (high/low);
- **Customization:** Extent to which the service is adapted for the customer (high/low).

By plotting service encounters along with these five dimensions service encounters can be understood from a customer perspective

Maister provides a fairly simple framework, combining degree of contact with degree of customization, which allows service providers to develop general ideas about what might be important for managing their services.

	Standardized Process Execution/ Delivery is key	Customized Process Diagnosis Interpretation is key
High degree of customer contact/participation. Service is rendered during interaction with customer. Focus is on event	Issuing standard fee installment plans. Certification of eligibility for reduced council tax payments. Provision of inquiry service for students. Administer Exam Board meetings. Administer enrollment of new students. Issuing grant cheques	Issuing non-standard fee installment plans. Providing guidance on assessment regulations
Low degree of customer contact/participation. Service is rendered away from the client. Focus is on result	Preparation of induction week programme. Maintain manual and computerized records for students issue results for students. Prepare and issue pass lists	Consider fee payment problems. Assessment of student fee status

This suggests that many of the services provided by a university registry, and therefore service encounters, have a low degree of customization. For many activities the degree of physical proximity between customers and registry personnel and customer participation are high but there exists a body of work where this is not the case. A customer focussed assessment of service provision; identifying areas of good performance and areas of poor performance would assist in identifying the best direction for change, for example greater standardization or greater customization, or transfer of resources between activities.

Variability: An unavoidable consequence of simultaneous production and consumption is variability in performance of a service. The quality of a service may vary depending upon who provides it as well when and how it is provided, e.g., an airline company provides on time services to and fro, whereas some other airline provides though regular service but not on time. Within a service provider one employee may be courteous and helpful others might be inefficient as well as rude.

Reducing variability involves determining the causes. It may be due to unsuitable personality traits in an employee which is difficult to determine at the selection stage. There may be good sound reasons for variations in performance, e.g., it could be due to poor training and supervision, lack of communication and performance and also lack of general support.

For services variability impacts upon customers in terms not just of outcomes but also of process of production. At the production stage variability pose a much greater threat for services as customers are usually involved in the production process at the same time as they consume it so becomes difficult for the service provider to maintain consistency of quality. Pre-delivery inspection is not possible for the service providers as services are produced in the presence of the customer without the possibility of intervening quality control. The variability of service output can pose problems for brand building in services compared to tangible goods for the latter it is usually relatively easy to incorporate monitoring and a quality control procedures into production processes in order to ensure that a brand stands for a consistency of output. Its often difficult to obtain standardization of output in services.

Perishability: Services cannot be stored for later sale or use, e.g., hotel rooms not occupied, airline seats not purchased and college places not filled cannot be reclaimed since services are performances, they cannot be stored. If demand exceeds supply it cannot be met as things cannot be taken out from warehouse. Even if capacity exceeds demands the revenue value of the service is lost.

Fluctuations of demand being one of the characteristics of service organization pose a great problem when these fluctuations are unpredictable, e.g., increase in the number of patients in any hospital due to a sudden calamity, the hospital beds being the same. So, there should always be strategies to provide a match between demand and supply. Services unlike goods cannot be stored. A producer of cars which is unable to sell all its output in the current period can carry forward stocks to sell it in the subsequent years. The only significant costs are storage, financing and possibility of loss through obsolescence. In contrast the producer of a service who cannot sell its output cannot move it to the subsequent years other than incurring loss. An airline which offers regular flights at 9.00 p.m. from Delhi to Mumbai has to fly even if its few seats are empty. The service offer disappears and cannot be stored to meet increased demands. This characteristic of the perishability results in greater attention to be paid in the management of demand by evening out peaks and trough and scheduling service production to follow this pattern as far as possible. Pricing and promotion are two of the tools usually adopted to tackle this situation. This characteristic emphasizes that service encounters involve individuals – service providers and consumers. Moreover, service encounters take place again and again, at different times. As a consequence, there are likely to be variations in service provision, by virtue of the participants, the time of the encounter or the circumstances.

Heterogeneity: To handle a service sector even though standard sectors may be used, e.g., to book in the cab service, to quote for insurance in one's life, etc., each unit may differ from each other unit. Franchise operations ensure to bring a standardization but ultimately it is difficult to ensure the same level of output in terms of quality. From customers viewpoint also it is difficult to judge quality without using it. Capacity levels should be available on call which surge in demand before service levels fall. Equal attention has to be given in times of low levels of usage to manage the spare service, e.g., different programmes can be adopted to compensate for uneven demand like theatre halls can go for weekend specials, film festivals, dentist – family discounts, etc. This characteristic emphasizes that service encounters involve individuals – service providers and consumers. Moreover, service encounters take place again and again, at different times. As a consequence, there are likely to be variations in service provision, by virtue of the participants, the time of the encounter or the circumstances.

Heterogeneity clearly has wide-ranging implications for the operational side of service provision:

- **Service personnel:** service delivery and customer satisfaction are highly dependent upon the activities and actions of those members of staff in the “front-line”, who actually perform, and are seen to perform, services. Service personnel must therefore be competent to perform services. They must be made aware of service standards and be able, or enabled, to achieve those standards.
- **Service standards:** must be established and made clear, to assist quality control and more effective management of service encounters, in particular evenness and equity of service delivery.

Lack of ownership: Lack of ownership is the basic difference between a service industry and a product industry as a customer gets an access for a service after paying for it but not owns it, e.g., hotel rooms, hospitals beds, etc. So, service industry should put a stress on easier payment terms in order to facilitate better growth of service sector. Ownership relates to the notion that the consumers of services do not own them overall, but only have temporary access to them. Consumers of services may, however, acquire ownership of aspects of service as follows:

- Tangible items which demonstrate the service
- Benefits accruing from the service, rather than the service itself

Thus, again using the example of a university registry, it is possible to cite examples.

Service provided (not owned)	Tangible items (owned)	Benefit (owned)
Certification of eligibility for council tax exemption	Certificate/letter	Savings
Enrollment	ID Card Receipt for fees	Access to buildings for period of enrollment
Provision of information on enrolled student numbers	Lists or reports	Knowledge of students enrolled

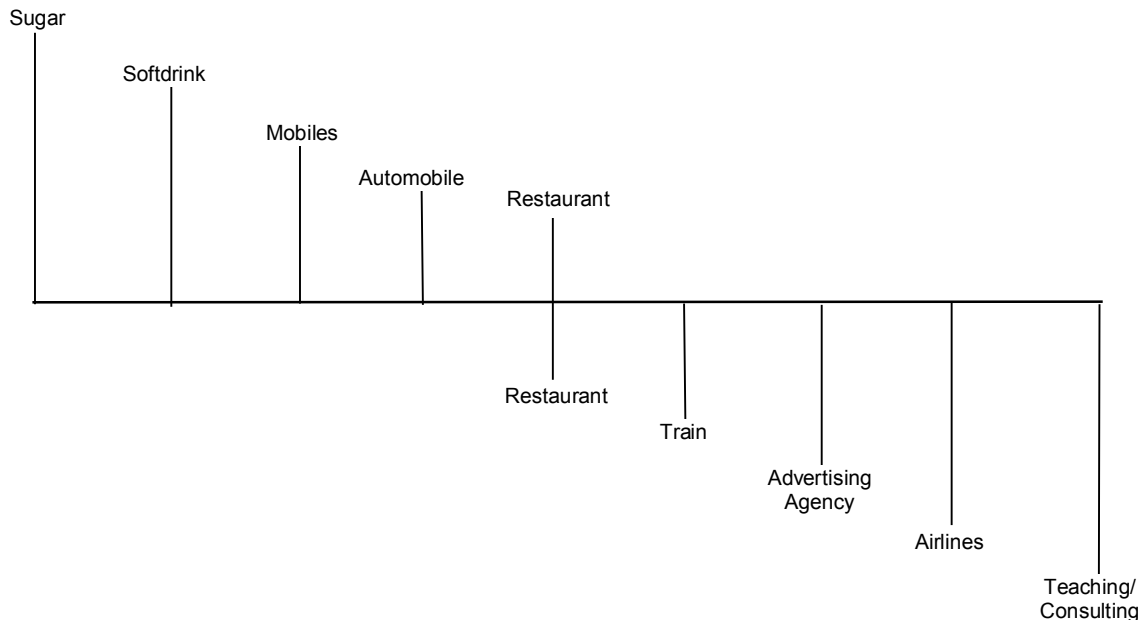
Again, this notion is linked to the notions of inseparability and perishability, as the finite nature of service indicates absence of ownership.

It should be noted, however, that customers may hold different relationships with service providers which impact upon degrees of access to services, albeit not ownership:

- **Membership status:** provides customers with recurrent access to service, which may involve discrete transactions or a continuous, regular delivery;
- **Casual status:** provides the customer with access to ad hoc, irregular services.

For a university registry, the majority of customers, students and members of staff, have membership status. A smaller number of customers, such as enquirers and external bodies, have casual status.

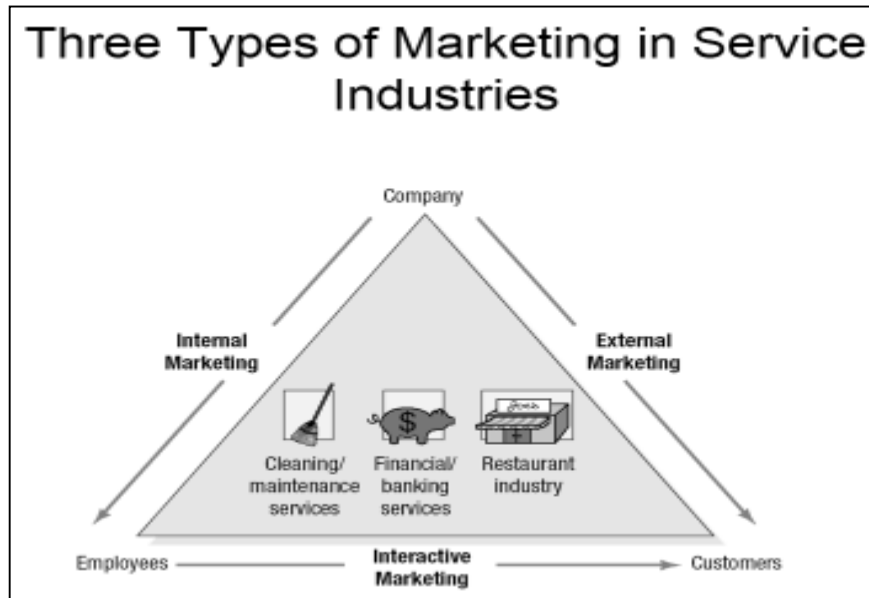
GOODS SERVICE CONTINUUM



The above chart shows the goods and service Continuum. The extreme left of the line shows the pure goods and the extreme right shows the pure service. As we move from left to right. We find the

level of Service goes on increasing. At the extreme left we see the commodity like sugar for which we do not need to provide a lot of additional service to the consumers. Then there is another type of good i.e., Soft drink which needs some kind of services to be provided to the customers, as we want our bottle of soft drink to be served chilled. As we move towards the right, we find Automobiles, wherein the level of services attached with the product goes on increasing. We know that the after sales service is one of the important criteria for purchasing the automobiles. For purchasing an Automobile, the customer would certainly want to know about the after sales services provided by the Car Company. Then we find a product where there is a 50:50 ratio of goods and services. In restaurants, we not only go for the good food, but the services provided by the restaurant in terms of ambience, music, cleanliness, hygiene, good waiters and other services matter a lot. As we go on moving toward the right we find the contribution of services goes on increasing from transportation service to Advertising Agency to Airlines and finally toward Teaching or Consultancy which is a pure service where no or negligible amount of goods are required. Today even the pure product selling companies understand that they are selling services to the customers and develop the strategy as a service company.

SERVICE MARKETING TRIANGLE



3 Types of Marketing in Service Industry –

- (a) **Internal Marketing:** The internal customers (employees) are the most critical part of the company. A service company cannot deliver value to their customer until and unless the internal customer are not convinced and believe the company. Company should strive hard to inspire their employees to believe in the company's vision and mission and act accordingly. Some of the excellent companies like 3m, IBM, Apple etc. Believes in the principle that the internal customers are more important for the company than the external customers.
- (b) **External Marketing:** The purpose of the company should be to gain, retain and grow their customer base. This can be done by delivering higher value to their customers. The super CEO of GE Jack Welch has rightly said that, we cannot give the job guarantee to our employers, only our customers can." The external marketing is the interaction of the company with its external customers (potential and existing)
- (c) **Interactive Marketing:** It is the interaction between the employees of the company with the customers. Customers do not interact directly with the company but interacts with the employees who represents the company in front of the customers. Employees helps to build trust with the customers and becomes the human face of the company for the customers.

PROMBLEM ARISING FROM THE CHARACTERISTICS

Heterogeneity: Where services are people processing, (e.g., job interview) degree of heterogeneity is more than where service provider provides a service to different customers, (e.g., a telephone service). The problem associated with this characteristics is the inability to standardise the product or procedure needed to deliver the service. Identifying customer's requirement and writing a specification for the service is the aspect of delivering a quality product.

Simultaneity: Quite apart from the fact that everytime a service is reproduced it will be different making standardization difficult and quality hard to define and ensure, the very fact that consumer is present throughout the production process during part of the process.

Unpredictability: No two customers will even want exactly the same service, the fact that customer is present during the conversion process leads to inevitable surprise that may lead to disruption of services. The effect of unpredictability has great impact in the system of services, e.g., in any service if the customer do not turn up on time, or who do not take as long to process as expected leads to underutilisation of resources.

No-pretest: In services it is impossible to do pretest as production and consumption occurs simultaneously. Once a hairdresser has cut a hair, there is no chance of sticking it back again, whereas a car being a product of manufacturing industry can be taken for a test drive.

Layout: The actual layout will need thought, not just from a safety point of view but also from an ease of access perspective.

Manner of delivery: Because the customer is present during the production process, he or she can observe how the product is being produced and so during the process if some defect arises from the employee side the customer who is the spectator loses confidence in the company and moves ahead to another.

Safety: The safety of employees is always a factor but customers are not trained may not be familiar with safety regulations or may be children, as a consequence the layout and design of facilities are of great importance. Nursery schools are of good examples – barred gates need to be in place where there are staircases and colouring crayons need to be non-toxic as just in cases a child decides to put the crayons into the mouth. Intangibility: If customers are buying something intangible how can they know just what they are buying if it cannot be precisely described subjectivity is inevitable. What makes an exciting and pleasurable experience for one may be frightening and nightmarish experience for another. When a service involves providing an experience of any kind whether exciting, relaxing, entertaining or exhilarating, defining the dimensions of that service is fraught with difficulties. Even if surrogate measures can be made, they tend to be of the form describing the surroundings and conditions for providing the service, rather than definition of service itself. In terms of what the customer perceives the service to be, that service, provided in the same manner on two different occasions may also seem different, because of the mood of the customer. A happy customer is more likely to see and experience in a favourable light than a customer in a bad temper.

Perishability: Perishability one of the characteristic of services most frequently presented. Whenever there are elements of the product which are not tangible and which cannot therefore be stored in a warehouse for later use, the option to produce for later consumption does not exist. Services are even more perishable than fruits.

MARKETING CHALLENGES OF SERVICE

Managing, growing, and profiting with both product and service businesses are challenging tasks.

But the challenges are different from one to the other. Listed below are some of the most common and difficult challenges of growing and managing consulting, professional, or technology service businesses that don't necessarily apply to product businesses.

- Clients can't see or touch services before they purchase them: This makes services difficult to conceptualize and evaluate from the client perspective, creating increased uncertainty and perception of risk. From the firm's perspective, service intangibility can make services difficult to promote, control quality, and set price.
- Services are often produced and consumed simultaneously: This creates special challenges in service quality management that product companies do not even consider. Products are tested before they go out of the door. If a product has quality problems while in production, the company can fix them and customers are none the wiser. Service production happens with the customer present, creating a very different and challenging dynamic.

SERVICES MARKETING ENVIRONMENT

There are two types of environment in which a service firm works:

- External or Macro environment.
- Internal or Micro environment.

The external environment factors are those that affect all service firms. They are external factors and so can neither control nor influence them. Only these factors help a marketer to read the changes and developments in environmental factors, understand the implications for his firm, adapt himself and allow for them in his strategy.

Micro environment are internal to the organization and affect the individual service directly. The firm can control its micro environment factors for decisive competitive advantage.

The macro environment of service consists of SLEPT factors.

- Socio-cultural factors.
- Legal factors.
- Economic factors.
- Political factors.
- Technological factors.

Social-cultural factors: It's a combination of social and cultural factors that greatly affect the service firms. The various social-cultural changes that have affected service firms are:

1. Consumption
2. Beliefs and values
 - Demographic changes
 - Age composition
 - Gender composition

- Changing role of women
- Family size and structure
- Changes in value system

Social factors are indicative of a consumer's ability to fit into his society. From service firms point of view it should be perceived by society to be legitimate and worthily support. Being seen as legitimate enables a service firm to acquire resources and successfully show its competence in providing service. That's the reason service firms maintain public relation desk.

In India, society has always perceived business as being profiteering and exploitative. This perceptions stems from the memories of East India Company and unethical practices of domestic industrialists. The prevalent religious beliefs also supported that everything in the world is Maya Overt Materialism is the source of all sorrow. This is indirect contrast to the materialistic Western beliefs. But there is a radical change now. There is conspicuous consumption with evident disposable incomes as well as desire to spend. Business people are also coming to the fore to air their thoughts about the society that they live in and how they care or want to care for it. The culture of a consumer consists of a series learned responses to different situations. It consists of his values, beliefs and faith bequeathed to him from the previous generations. They guide his consumptive and service experience behaviour, e.g., die hard vegetarians will find it very difficult to cope with the food habits prevalent in Europe and so the Tom Major Kuoni Travels thus turns it "Ghar Ka Khaana" slogan as its USP. India till late eighties believed in the motto of living with their means but changed cultural norms have led the credit and companies flourish. Consumers today are not only exposed to international brand but also had support marketing mixes like finance, exchanges to what their appetite. Service firms in India have been greatly affected by social-cultural factors for better or for worse. Firms like McDonald's have made a detailed study of Indian consumer and its social-cultural fabric. McDonald's realized that substantial parts of Indian consumer are non-vegetarian but ham or beef was no. So, for the first time in its global strategy they introduced chicken burgers only. Also McDonald words to increase its Indian sham regionalized its service with Mc Alloo Tikki.

India's vast cultural diversity both an enigma and an opportunity, tourism has been greatly benefited.

Demographic changes have been also contributed the service marketers to gear up targets, e.g., Citibank credit cards innovated by targeting management students. They offered its low end silver cards free while they were still studying. This idea inculcated the habit of using credit and company hoped that once they are working they would be brand loyal. Tour package companies innovated service product design to target different segments of people. Enormous it in traditional family structures necessitated role reversals influenced service offerings and service consumption. Service firms in their personal sellings endeavour should take care to adopt and adapt to local traditions.

Legal factors: The legal factors are a percolation of the political and governmental factors. There are more laws and regulations for service industry. Over the years banking and insurance have grown in complexity. The legal ramifications are greatly affecting service industries. Indian service firms have had their share for being affected by the legal templates, e.g., no bank can open its branch without the prior permission of RBI. Private players were not allowed till recently in many sectors like railways, etc., the formation of World Trade Organization has helped service more globalized – gradual integration with the world economies creating congruence and homogenization of systems and procedures for facilitating trade across the world. Globalization is the key to the future of economic

development as it will lead the free flow of service across the countries, e.g., banking and insurance has seen a surfeit of partnership and collaborations. It has injected energy, competition, etc. Indian consumers have been treated to such mega marketing and high quality customer service before. It has woken up sleepy giants like SBI, LIC, etc., to adopt survey and modern service marketing tactics. Education has seen a rash of foreign entrants with Indian educational institutions going in for associations, collaborations and partnerships of different programmes. In hospital and health care amenities and better drugs are available.

Economic factors: The ability of all service firms to service and prosper depends wholly on the economic policies. Some of the economic theories that have been applied the world over are:

- **Monetarists:** Their main economic goal is to stabilize the money supply.
- **Keynesians:** Followers of John Maynard Keynes and advocated the use of fiscal and monetary methods to increase aggregate demand in slack times and dampen it peak times.
- **Supply Siders:** Inspired by Jean B. say that it's not insufficient demand but rather artificial obstacles to trade that causes economic chaos and stunted growth.

An economy has a business cycle of half a decade lasting from one peak or trough to the next. A business cycle consists of the following:

- Recession
- Recovery
- Growth
- Decline

The world trend is inching towards globalization. An upheaval in one country is affecting the whole lot of neighbouring countries. With globalization there has been a spent in the demand for communication, travel and tourism and information service. The new developments of information technology have helped the boom. With increasing specialization in the whole economy there has been an increased demand for specialists like consultancy, market researchers, etc.

Political factors: Government influence in **omnipresence** and service firms have been greatly affected by policies and other state, central or local decisions. Socialism prevented many service sectors in India from blooming. In Indian democracy after independence the service entrepreneur found himself bound hand and foot within the lay breath of rules, regulations and tight cash flow. Tourism industry was greatly hit in India by official neglect and apathy. For too long foreign tourist traffic was restricted in various parts of India. Riots, tourism have taken their toll on tourism. Every time the industry geared itself with renewed vigour to campaign for a new season some political factors would intrude. The intangibility of service made it easier for transactions across borders to take place. The service on information can be transacted swiftly across political borders. But this is no longer clandestine. With various international agreements services have been grown and markets and providers have legitimized.

A good example is the flourishing BPO industries in India.

Technical factors: The technological development that affected services are:

1. Universal Product Code
2. Credit Cards Technology

3. ATMs and V-SAT
4. Data Mining and Data Warehousing
5. Cellular Phone Technology
6. Imaging Technology

Technology as the dictionary clarifies means knowledge that can be applied. It refers to the means by which service firms transform its input into output. The employees of service firm get involved in activities that essentially transform inputs like labour, knowledge or capital into outputs which are goods. Thus, a bank has its technology for converting capital, ideas, and labour into banking service. Technology has been particularly important for service firm as it has been very successful in increasing their productivity, effectiveness, enlarging the catchments areas of service. Automation has given service firms a competitive advantage. Technology also poses a threat to those firms who lack it. They either have to improve their operations with their present process or adapt to new technology. Service firms will always suffer from catch-22 dilemma, i.e., adopt technology for decisive competitive advantage but development of technology can also make services obsolete. At the same time it is also instrumental in creating an entire industry or market. The development of internet and its popularity as a communication business tools has increased the possibilities for service firms, e.g., ATM's increased the possibilities of 24- hour banking. Imaging technologies from Kodak and graphics from Apple Computers led to Desktop Publishing which revolutionized printing and publishing. Other business possibilities increased with the popularity of mobile phones.

Example: Indian post with network of ₹ 1,50,000 Post offices and ₹ 5,50,000 employees is expecting to touch ₹ 1000 Cr COD (Cash on Delivery) by March 2015 (₹ 500 Cr last year March 2015) thanks to its tie-ups with E-Commerce compares (including Flipkart, Snapdeal, Amazon, Naap Tol, etc.) The 5 year target is ₹ 5000 Cr. Indian post proposed to invest ₹ 322 Cr in IT Modernization during 2016-17.

Internal or Micro Environment

The internal or the micro environment factors of a service firm consist of the following:

- External customers
- Internal customers
- Competitors
- Suppliers
- Regulators

The internal customers are an intrinsic part of a service firm environment consisting of employees, providers, direct sales agents, etc. They are controllable and directly affect the service firm in its business endeavour. The employees work to further their personal, social and economic agenda. All service firms accomplish their objectives through all action of their employees. The employees are an important marketing-mix of the service firms. The main challenge in the employee-employer relation is to create situations wherein both achieve their goals. Therefore, this environment factor is either a strength or weakness for a service firm.

Consumers, competitors, suppliers and regulators are all external to a service firm's marketing context. So, they are either a threat or opportunity for a service firms. Thus, Citibank like Birla

SunLife, might consider its customers to be an opportunity; they will try to make accurate need-analysis and repeatedly deliver quality service offers to them. Customers are an opportunity if the service provider can repeatedly deliver quality service and also the same customer can be a threat if they are in a litigious mood and insist on taking a service firm to court. Customers are the main reasons for the existence of service firm. Customer first, service orientation is the motto of successful service firms. To develop loyal customer a service provider must know who its customers are and also to understand their needs and wants. Good service firms listen to their customers and treat them as less as adversaries and more as collaborations whose product development is driven customer feedback. There is a paradigm shift in customer service: “a shift from monologue to dialogue”.

Suppliers for service firms must realize that they are not in monopoly in its area otherwise they would dictate the service provider, e.g., suppliers for ICICI Bank could be National Cash Register which delivers and maintains its Automated Teller Machines. Its tropicalized high technology could be perceived as an opportunity by ICICI Bank but can be perceived as a threat if it becomes a monopoly.

To gain competitive advantage a service firm must do either of the following:

- Provide equal product value but operate more efficiently than its rivals.
- Operate in a unique way that creates greater product value and commands a premium price.

A service firm can be identified by a matrix alignment between service offers and needs of the consumers. Competition in service industry can be direct, indirect or substitute. Service firms that are not able to compete will have to change their service product-line or else might face extinction. With competition service firms use tactics like price, increased consumer service on warranties. The intensity of competition depends on the type of market. Competition is both healthy as well as detrimental for the organizations. Too many service firms fighting same customers will erode the profitability of the firm. Service firms not only compete with each other but also with substitute goods and services. The service marketer should constantly look out for this threat as it is the most invisible competition of all.

There are four different types of competition:

- **Direct Competition:** It takes place when the service products are practically identical in features and benefits. The services offered satisfy similar needs of the consumers. If the consumer does not perceive any major differentiation, then price becomes the only differentiator. The rivals fight it out with frequent promotions. The mobile phone service is a good current example of such competition.
- **Indirect Competition:** When the same service offer goes on to satisfy multiple needs, indirect competition takes place. Taking first example of a watch which can be perceived by a customer as a chronometer, a gift, jewellery, a fashion accessory or a personality statement because of its sporty look. Similarly, a restaurant can be a place for the hungry, for leisure's in the evening or a rendezvous point.
- **Substitute Competition:** This is the most insidious of all competition, foxing most marketers because of its unannounced threat. When different service offers compete to satisfy the same needs of the customer substitute competition takes place, e.g., a famous restaurateur would be surprised to know that the less number of diners in his restaurant is due to a famous TV programme on air in the evening and not due to competition from any other restaurateur.

GOODS VERSUS SERVICE MARKETING

This is general agreement that inherent differences between goods and services and they result in unique or at least different management challenges for service business and for manufacturers that sell services as a core offering.

Intangibility: The most basic and universally cited difference between goods and services is intangibility. Services are performances or actions rather than objects the services cannot actually be seen or touched but certain tangible components of services can be seen. This intangibility of presents several marketing challenges. Services cannot be inventoried while goods can be. As a result fluctuations in demand are often difficult to manage. Services cannot be easily patented and new service concepts can be easily copied by customers while products can be patented so, new ideas can be copied by competitors. Service quality cannot be assessed by consumers as there is no standardization in services. Advertising and other promotional materials are challenging in service firms whilst easier in product firm. Pride quality relationship is complex to determine.

Heterogeneity: No two services are alike as services are delivered by people whose performances may differ and also from day-to-day and hour- to-hour, e.g., a doctor can provide different levels of diagnosis to two different people depending upon the degree of severity of disease. As services are heterogeneous ensuring consistent service quality is challenging. But product produced by a company is consistent in quality in one batch of production. Product cannot differ according to the needs and wants of a customer because products are standardized.

Simultaneity: Goods are produced then sold and consumed but services are sold first then produced and consumed simultaneously, e.g., an automobile is manufactured at a place, shipped to other place and then sold after two months in another place. But a restaurant services cannot be provided until sold and the dining experience is essentially produced and consumed at the same time. Because services are often produced and consumed at the same time mass production is difficult. The quality of services and customer satisfaction is dependent on interaction between the employee and the customer. Unlike product services cannot be centralized as services are delivered directly to consumers in convenient locations and significant economies of scale cannot be achieved. Due to simultaneously of productions and consumption the customer is involved in and observes the production process and thus may affect the outcome of service transactions, e.g., in a hotel an over demanding patron will command extra attention from the service provider and negativity impact the experiences of other customers.

Perishability: It refers to the fact that services cannot be saved, stored, resold or returned, e.g., an airplane seat or a doctor's appointment cannot be reclaimed or resold at a later time. Perishability makes this an unlikely possibility for most services. Perishability poses a major issue that marketers face due to the inability to inventory. Demand forecasting and creative planning is difficult in service unlike product. Strong recovery strategies are important as services cannot be resold.

Goods	Services	Implications
Tangible	Intangible	Services cannot be inventoried, patented, displayed or communicated.
Standardized	Heterogeneous	Service quality and customer satisfaction depend on employee actions, quality

		depends on many uncontrollable factors.
Production separate from consumption	Simultaneous production and consumption	Customer's participation and affect the transaction Decentralization and no mass production.
Nonperishable	Perishable	Difficult to synchronize supply and demand. Services cannot be resold.

CONSUMER BEHAVIOUR IN SERVICES

The primary objective of any primary producers or marketers is identical to that of all marketers, to meet consumer needs and wants thus ensuring own economic survival. Service marketer need to close the customer gap between expectations and perceptions. Thus, customer is the main reason for existence of the service firms. Without an understanding of the consumer it would be impossible for the marketer to deliver the offer. The consumer behaviour needs to be studied as the consumer's mind is like a "Black Box".

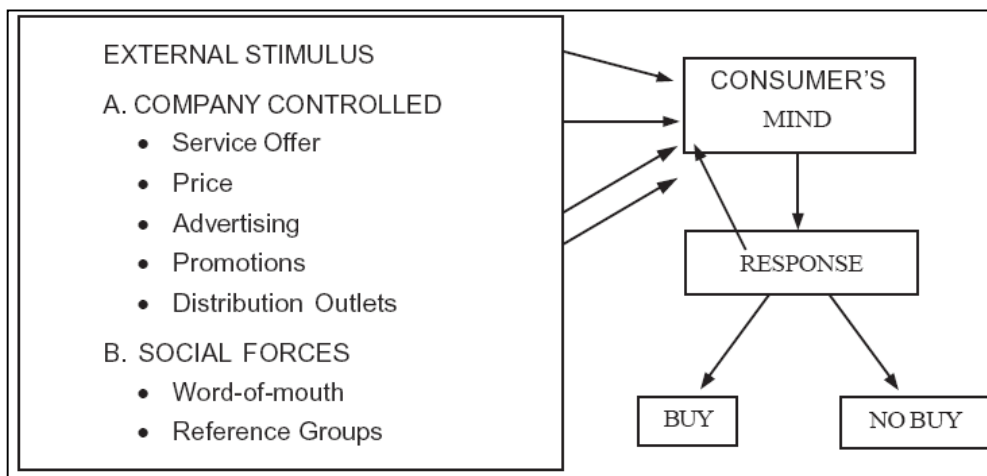
Black Box Effect

The marketer can try to stimulate the consumer but is not sure which way the buyer would react: to buy or not to buy the offer. All that the marketer can study are all the external stimuli acting on the consumer and his responses. The external stimuli are of two types:

- Those controlled by the company through its marketing mixes like the offer, price of sale, advertising, special promotions like freebies, add-on or celebrity endorsements.
- Those which are social sources, like word-of-mouth and emanating from reference groups which have strong recommendations effect.

Buying Situations Faced by the Consumer

Customers find themselves in different buying situations, from purchase- to-purchase and service transaction to service transaction. For example, two trips to retail banks for two different purposes may not lead to same purchase decision. The second buying situation will vary greatly from the first because of the following reasons:



- The customer is aware of the service product category and service brands.
- The customer has definite decision-making criteria about the purchase of the service offer.

Lets suppose Mr. Roy is very clear about the hotel he would like to stay in his business tour. It should be close to the business district as well to the airport: its tariff should not be more than ₹ 2,000 per day and should have a conference facility.

- The customer is competent enough to evaluate the service offer and also has definite evaluation criteria. Mr. Kamath, a restaurant connoisseur, knows about food and its cost across different restaurants and can instantly evaluate seeing the menu, décor and service personnel, he is well aware that a certain dish, perfectly cooked, tastes like and what it should cost in that particular restaurant.

If all the conditions persists, then the customer is knowledgeable aware and confident. He does not need to be highly involved with purchase and transaction. The marketer can also appropriately tailor his communication and marketing directly to the customer. If the three differentiating conditions persists in two or more buying situations then the buying situations are same. Thus, more than the service product, it's the buyer's decision-making ability that differentiates one buying situations from another. The three buying situations are:

- **Straight re-buy or routinized response behaviour:** Here the customer comes for the rebuy of the same service product, e.g., bank draft. Here all the three conditions of differentiation are met. He is aware of the service product category as well as the brand. The purchase is of daily or frequent necessity. He has low involvement with the purchase process.
- **Modified re-buy or limited problem-solving:** In this situation, the customer does not meet one or more of the differentiation criteria. He/she may be aware of the category or brand but not the new version or the form. Then there is a small amount of problem-solving for the customer. Example, Mrs. Iyer may go for usual treatment to the beauty parlour but the beautician may draw her attention to some other new treatment. Mrs. Iyer would then enquire about its extra benefits and also the cost.
- **Extensive problem-solving or critical problem-solving or new tasks:** A customer will be in this buying situation when the offer is totally unfamiliar, and he is not clear either about its decision criteria or its evaluation criteria. This is because of his lack of knowledge about the offer. In this situations two or three conditions are not met. This happens for most service offers like a vacation package tour, insurances. The consumer is most of the time not aware of the destination or its promises. Neither is he clear about the criteria of decision-making. These are high involvement purchasing processes and the customer would require a lot of time for information search as well as decision-making.

The different types of roles that come into play in service consumption decisions are:

Initiator/Influencer

In this role, a person is responsible for germinating the idea of consuming or experiencing the service offer in the customer. He could be a family member or an outsider. Thus, if the Chopras are ecstatic after seeing the movie in IMAX theatre then they can influence their neighbour. The decision-maker refers to them, trusts them and believe in their expertise in the offer. There are two types of reference groups that a person is influenced by: the primary reference group which includes the family members, colleagues, who meets him regularly but informally, and the secondary reference groups

which include social circles, religious groups whom he meets irregularly and formally. The marketer should identify such groups and use them in his communication strategy to reinforce their influence. Word-of-mouth communication is very effective for primary groups, while endorsements by celebrities would be suitable for secondary groups.

Information Gatherer

This person is very resourceful and has ability to gather all possible information of the service offer. Based on his choice his decider can take an informed choice or decision. The service marketer can target the information gatherer in his communication strategy, giving him all possible information on his request. Imagine a situation wherein the customer has difficulty in getting certain information regarding a hotel: that particular offer being ignored by the decider and the marketer loses a customer. Especially in service industry –where the provider plays such a crucial role – the marketer needs to have such systems as CRM and accessible call centres in place readily accessible and functioning efficiently. For example, most progressive banks have 24 hrs toll free helplines to assist customers with their banking transactions.

Gatekeeper

The gatekeeper is the anti-thesis of the information gatherer: he blocks or filters the information which might limit the choices of the decider. This takes place mostly in institutional consumers. They might be the secretary, security-guard, purchase manager, etc. In a consumer decision process the gatekeeper does assist in initial choice making: The parent using child lock switches in a TV, preventing the viewing of certain channels. The marketer can make use of his persuasion to win over such DMU. The difficulty lies in identifying them in an organization. It is comparatively easier among individual consumers.

The Devil's Advocate

This person is the eternal 'nay-sayer', disagreeing with the service offer, its benefits or to its consumption. The marketer can only ignore his DA at his peril: if he is very influential, then most service offers are out of bounds of decision-making. Consumption becomes minimal. The marketer should convince the market fully, if he hopes to make a breakthrough.

Decider

He is the person who has to take the final decision to buy or not to buy. He has to decide on the priority of the purchase, decides on the number of users and number of beneficiaries of the service consumption.

Buyer/Purchaser

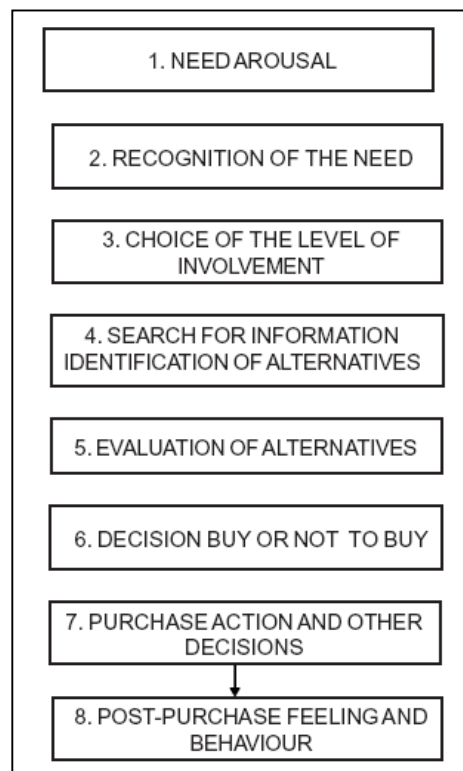
The buyer or purchaser performs the routine task of completing the last formality, making the payment, receiving the delivery and so on.

User

This is the person for whom the purchase decision was taken. He may not be final person who took the final decision. This implication is that the user and the decider are separate. This separation of two decision-making units mostly takes place in institutional purchases and B2B transactions.

A study of this can help him tailor his marketing programme. Effective service marketing is based on recognizing the differences and thoroughly understanding consumer evaluation processes. Consumers have a more difficult time evaluating and choosing services than goods partly because services are intangible and no standardized and partly because consumption is so closely intertwined with production.

Consumer behaviour corresponds roughly to different buying stages. Though in purchase of service those categories almost occur in linear sequences:



Decision-making Process

A service marketer should understand the buying process and the different influencing factors. He should analyze the following:

- The involvement level of the buyer
- The different decision-makers of the buying process
- The different alternatives at the disposal of the buyer
- The buyer's criteria, which impinge upon the decision-making process
- The methods of information search and subsequent evaluation there- of.

Stages in consumer decision-making

1. Need Recognition
2. Information Search

3. Evaluation of Alternatives
4. Purchase and Consumption
5. Post-purchase Evaluation

Need Recognition: The process of buying a service begins with the recognition that a need or waste exists. Although there are different ways to characterize needs the mostly accepted theory is Maslow's hierarchical need theory, which specifies five needs categorized in a sequence from lower level needs to higher level needs. The five needs are physiological, safety and security, social, ego and self-actualization. The service marketer should be sorry enough to recognize primary needs and be ready to service secondary needs. Physiological needs are basic needs such as food, water, and sleep, e.g., when you are hungry while on a trip of sightseeing, you first search for hotel or restaurant service.

Safety and security needs include shelter, protection and security. Immediately following the terrorist attack in Mumbai's Taj Hotel people recognized their vulnerability and sought ways to increase safety and security.

Social needs are for affection, friendship and acceptance. Social needs are critical to all cultures but are particularly important in the East. Consumers place a great deal of value on social and belonging needs.

Ego needs are for prestige, success, accomplishment and self-esteem. Food, safety and belonging are not enough for many consumers especially those from Western culture. Needs to improve oneself and achieve success are responsible for the growth of the education, training, self-actualization involves self-fulfillment and enriching experiences consumers desire to live up to their full potential and enjoy them.

Information Search: Consumers obtain information about products and services from personal sources and non-personal sources. When purchasing goods, consumers make generous use of both personal and non-personal sources. If the consumer is not confident on the purchase decision or not aware of the service category he will spend more time on decision-making process. Personal influence becomes pivotal as service complexity increase. Most managers in service industries recognize the strong influence of word-of-mouth in services. Next consumers may find post-purchase information seeking more essential with services because services possess experience qualities and cannot be adequately assessed before purchase. If a customer is not able to find the required information during his search and if the process entails high involvement then a certain offer will not be part of his decision- making and the marketer loses out and suffers from lost opportunities. The service marketer should take care to be apart of the consideration set so as not to miss out benefits. In service industry a marketer must not all the consumers to do comparison otherwise the consumer becomes very rational in decision- making. Direct marketers get advantage from the customer's inability to compare their offer during a service product demonstration and personal selling.

Evaluation of Alternatives: The evoked set of alternatives available for a consumer is limited for a service industry due to valid reasons. One reason involves differences in retailing. Second reason is that consumers are unlikely to find more than one or two business providing same services in a given geographic location. Third difficulty is of obtaining adequate pre-purchase information about services. The customer for the service starts making a comparison of the attributes of the alternatives based on his criteria of decision-making. He then makes the comparison based on subjective parameters like perceptions of brands. The customer ranks his preference among alternatives which

tend to satisfy both functional and rational needs, e.g., the end of fiscal year an income tax payee would search for different alternatives of tax saving instruments. Faced with the task of collecting and evaluating experience qualities, consumers may simply select the first acceptable alternatives rather than searching many alternatives. Technology is also a viable alternative for many services. Non-professional service providers must recognize that they often replace or compete with the consumer which may imply more exacting standards from consumers.

Purchase and Consumption: What other decisions can possibly be left for consumers after the decisions to buy or not to buy? There is the purchase decision. In this decisions emotions and moods play an important role. Emotions and moods are feeling states that influence people's perceptions and evaluations of their experience. As 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/she enters a service establishment, service provisions will likely be interpreted more negatively, than if he/she is in a positive mood. Similarly, in any service establishment if one customer is in a irritable mood whether from problems with the service or from existing emotions unrelated to his service his/her mood will affect the provisions of service of all customers who sense negative mood. Moods can affects service consumer behaviour a positive mood can make a customer more willing to participate in behaviours that help service encounters succeed. A consumer in good mood may more probably engage in behaviours effective for service providers than a consumer in bad mood. Moods and emotions also influence service customers to bias the way they judge service encounters and providers. Moods and emotions enhance and amplify experiences making them either more positive or negative than they might seem in the absence of moods and emotions, e.g., positive mood of a service customer will heighten the experience leading to positive evaluations of service establishment. Moods and emotions also affect the way information about service is absorbed and retrieved. Service marketer need to be aware of the moods and emotions of customers and of service employees and should attempt to influence those emotions and moods in a positive way. The purchase and consumption in service sector depends upon the experiences the customer share with the service providers. After overall evaluations the service providers takes the next decision.

Post-purchase Evaluation: This reaction takes place after the purchase and usage. The customer has two types of reactions: Pleasure and pain. In service delivery is below expectation the customer is disappointed, dissatisfied and experiences pain. If the service is as expected by the customer then the customer is satisfied. But if the service delivery is beyond expectation, the customer is delighted. As consumer participate to a greater extent in the definition and production of services they feel more responsible for their dissatisfaction. When they purchase services, e.g., a consumer purchasing a haircut, receiving a haircut depends upon in part on the clear specification of consumer's needs and also on the stylist. Services are less communicable, less divisible more complex and less compatible than goods. Consumers adopt innovations in services more slowly. Marketers may need to concentrate on incentives to trail when introducing new services. Offering free visits dollar off coupons, etc., may be appropriate strategies to speed diffusion of innovations in services. Consumers require reassurance to reduce their cognitive dissonance and disequilibrium. This state of tension and anxiety occurs when consumers have two conflicting or opposing ideas or beliefs at the same time. The consumer will not be enthusiastic about his decision if he has high doubts. The service marketer should reduce their tension and anxiety by giving guarantees having helplines through call centres, CRM systems, etc., Advertisements should underscore the satisfaction that consumer feels after the service transaction.

POSITIONING OF SERVICES

After segmenting and selecting the target market, the next logical step in developing a market strategy is to design a differentiation and positioning strategy. Let us look at some examples that show the importance of these concepts. The Ritz Carlton is considered one of the best hotels around the world for 'customer service'. Daewoo is well known for manufacturing 'family cars'. McDonalds, is known for its 'variety of products, speed and efficient customer service. Jet Airways in India has received many awards for being the best airline to serve the economy and business class travellers. All these companies have differentiated their products/services well enough for their customers to view them as distinct from their competitors, offers and have helped them occupy a unique place in their customers' minds.

These companies have learnt to 'position' themselves well in their customers' minds and differentiate themselves from their competitors. They have done sufficient research to learn their customers' expectations and perceptions about various offers available in the market, and adopted effective competitor strategies to attract the customers. Further, they have identified the specific attributes that give them a competitive advantage over the other players in the market and worked on these attributes. In addition to occupy a better place in their customers' minds, they have effectively communicated their product/service attributes to the customers. Thus, an organization's positioning strategy deals with how a company wants its customers to perceive its products or services in relation to those of its competitors. Companies that are not well positioned suffer in the competitive market with a low market share and low profit margins. Therefore, companies are striving to learn the secrets behind successful positioning.

Definition and Concept

"Positioning is defined as the process of establishing and maintaining a distinctive place in the market for an organization and/or its individual product offerings. Positioning involves a company's products/services creating and occupying a place, in the minds of its customers. It also gives an account of the important attributes or characteristics preferred by target customers, when compared to a competitor's offers. Marketers should analyze the current position occupied by their firms in the (present and prospective) customers' minds and take necessary steps to create a distinct and effective position. For example, McDonald restaurants have loyal customers all over the world and this is due to the unique position it occupies in its customers' minds either due to the products offered or for its prompt and efficient service.

Hooley and Saunders describe the major issues in developing a marketing strategy as, "the identification of target market or markets, the customers that the organization will seek to serve and the creation of a differential advantage or competitive edge that will enable the organization to serve the target market more effectively than the competitor". According to Peter Doyle, "positioning strategy is the choice of target market segments, which determine where the business competes, and the choice of differential advantage, which dictates how it competes".

The above two definitions stress the differentiation and positioning aspects that help a firm gain a competitive advantage in the market. Marketers should have a thorough knowledge of not only the attributes of their products and services, but also those of their competitors in the market to understand the extent to which they differ. Further, they should also assess how the customers in the target market perceive their products/services and their attributes in terms of their specific needs. This information

will give them an insight into the various offers made by the firm at present and the modifications required to hold a strong and unique position against its competitors. Customers view products/services as providing value to them. This value can be services value, product value, people value or image value, or a combination of any of these. The cost to the customer in procuring these products/services can be in terms of monetary cost, time cost, energy cost or psychic cost. The effective value to the customer is the sum value of the benefits less the total cost.

Positioning Strategies

Positioning is a very important aspect of marketing a product or a service. The three broad positioning alternatives as suggested by Michael Porter are as a product differentiator, as a low cost leader or as a nicher. He also suggested that firms should concentrate on one single strategy and excel in that rather than trying to be good at everything. According to him, when companies try to do this, they lose focus and are beaten by firms which have excelled in positioning themselves based on one single strategy.

These broad frameworks provide the firm with the basic foundation on which to build their positioning. Firms should look at strategies for specific positioning. These specific positioning strategies can be based on an attribute or benefit of the service or the consumer or competitor of the service. Some of these specific strategies are discussed below:

- **Attribute positioning:** A service provider positions itself based on an attribute or a feature. For example, *Malayala Manorama* positions itself as the No.1 daily in India with the most number of readers and Allahabad Bank positions itself as the oldest bank in India. However, positioning based on a feature or an attribute may not work too well for some services.
- **Benefit positioning:** Most services providers resort to benefit positioning as the general psyche of the customer is to analyze the benefit that he derives by using a particular service. For example, banks like ICICI and Citibank offer facilities like ATMs and internet banking, to their customers.
- **Use/application positioning:** The service is positioned as the best for a certain application. For example, SBI positions itself as the best in the business where educational loans are concerned.
- **User positioning:** The service is positioned for a specific target group of users. For example, India positions itself as the destination for tourists seeking inner peace.
- **Competitor positioning:** The service is positioned by the provider against a competitor's service offering. For example, IIPM positions itself against the IIMs. Its ad says, "Dare to think beyond the IIMs".
- **Category positioning:** The service provider positions itself as the category leader and becomes synonymous with the service. For example, Essel World became synonymous with an entertainment park in India till more such parks were started across the country.
- **Quality/price positioning:** A service is positioned in the market as possessing a certain quality standard or at a particular price. For example, some of the Oberoi-Hilton hotels are positioned as high quality, high-price hotels. The Taj group is trying to position some of its hotels in the 'value for money' category.

Companies, however, have to be careful in designing their positioning strategies and avoid some of the associated pitfalls. Some brands are under positioned when they fail to provide a strong benefit

or reason for the customer to choose them. On the other hand, some brands are over-positioned for a very narrow segment and so many potential customers fail to notice it. When a brand communicates two or more contradicting features/benefits, it is termed confused positioning. Irrelevant positioning is when the brand fails to attract any customers because of offering irrelevant and redundant features/benefits. It is termed doubtful positioning when a company promises something and the customer doubts its capacity or the brand's capacity.

STEPS IN DEVELOPING A POSITIONING STRATEGY

The positioning strategy is developed after detailed research of the target market, the competitors, and the current position occupied by a company. Let us now discuss the steps involved in developing a positioning strategy in detail.

Determining Levels of Positioning

A company should first decide on the level at which they would like to position their products or services. A single company can position itself at different levels at different points of time. To discuss the topic further, let us take the example of Life Insurance Corporation (LIC) of India.

LIC has positioned itself at the service level by offering complete life insurance services to its customers. Its policies are flexible as the whole life insurance policy is further divided into Whole Life with Profits, Limited Payment Whole Life, and Single Premium Whole Life. It differentiates itself by offering customized and flexible policies. For example, LIC offers products like Komal Jeevan, Jeevan Sukanya, etc., for children; and Varishtha Pension Bima Yojana, Jeevan Akshay II, etc., as pension plans for elderly people.

Further, at the corporate level, LIC has positioned itself in its customers' minds as a trustworthy and reliable company providing complete insurance products.

At the category level, LIC has positioned itself as an insurance company with various investment options as against other categories that provide investment options, like banks and other financial institutions.

Types of Contact

Let us now see the different types of contact of Services. But, before understanding the High Contact and Low Contact Services, it is important to understand Services as a system. We can understand services as a three overlapping sub-systems. In the first sub-system we shall understand services as the Operation it is performing. Here we see all the inputs that are used in the service operation. All the inputs are processed and the service elements are created in this sub-system. Inputs includes the Service facility, the service equipment and the service personnel. The second sub-system is called the Service Delivery or the front stage. At this stage the final delivery of service elements takes place. This is the stage where the service is delivered to customers. At this stage the customer makes interactions with the service operation. The third sub-system is called the Service Marketing stage. It includes all the contact points of the service firm with its customers.

Service Business – As a System

Three Overlapping Sub-systems

Service Operations (front stage an backstage)

- Where inputs are processed and service elements created
- Includes facilities, equipment, and personnel

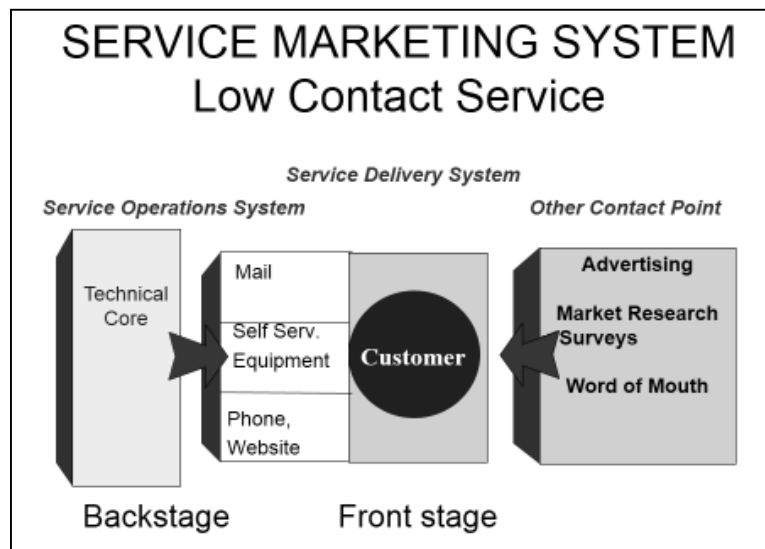
Service Delivery (front stage)

- Where “final assembly” of service elements takes place and service is delivered to customers
- Includes customer interactions with operations and other customers

Service Marketing (front stage)

- Includes service delivery (as above) and all other contracts between service firm and customers

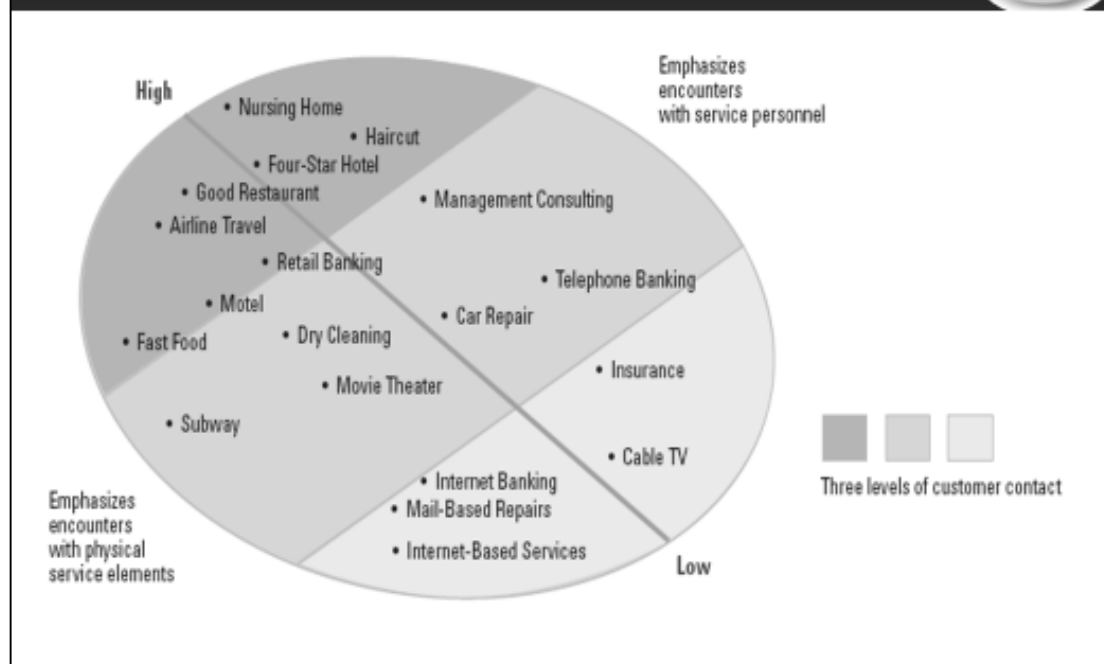
After understanding the 3 sub-system of the Service Business, now we are in a position to understand the low contact and high contact services. Let us first discuss the low contact services. In these services customer need not to be physically present in the service premise throughout the service delivery process. The service firms uses various types of equipment and self service options so that customer can get the service themselves. The example of low contact services could be the ATM Machines we use, the online shopping we make, etc.



In high contact services, the customer need to be actively involved till the service is not fully delivered. The involvement of customer in the high contact service is significantly high than the low contact service system. Here the customer interacts with the service facility and create number of contact points for the service marketer. Example of a high contact service could be a patient going to undergo the dental treatment to a Dentist.




Service Encounters Range from High-contact to Low-contact



The above chart shows the high contact and low contact services with some practical examples. The above sphere is divided into three colors which range from the high contact to low contact. Also the sphere is divided into two parts. On the one side of the sphere the customers are interacting more

with the service personnel and on the other they are interacting more with the physical elements of the service facility.

Distinctions between High-contact and Low-contact Services



- **High-contact Services**
 - Customers visit service facility and remain throughout service delivery
 - Active contact between customers and service personnel
 - Includes most people-processing services
- **Low-contact Services**
 - Little or no physical contact with service personnel
 - Contact usually at arm's length through electronic or physical distribution channels
 - New technologies (e.g. Web) help reduce contact levels
- **Medium-contact Services Lie in between These Two**

Service recovery and its impact on loyalty

Service recovery refers to the actions taken by an organization in response to a service failure. Failures occur for all kinds of reasons – the service may be unavailable when promised, it may be delivered late or too slowly, the outcome may be incorrect or poorly executed, or employees may be rude or uncaring. All of these types of failures bring about negative feelings and responses from customers.

Left unfixed, they can result in customers leaving, telling other customers about their negative experiences, and even challenging the organization through consumer rights organizations or legal channels.

Research has shown that resolving customer problems effectively has a strong impact on customer satisfaction, loyalty, and bottom line performance. That is, customers who experience service failures, but are ultimately satisfied based on recovery efforts by the firm, will be more loyal than were those whose problems are not resolved.

Results were reported in a study of 720 HMO members, in which researchers found that those who were not satisfied with service recovery were much more likely to switch to a different health care provider than were those who were happy with how their problems were addressed. The study also found that satisfaction with service recovery was the second most important factor out of 11 service attributes in predicting overall customer satisfaction. The most important factor not surprisingly, was perceived medical outcome.

An effective service recovery strategy has multiple potential impacts. It can increase customer satisfaction and loyalty and generate positive word-of-mouth as noted earlier. A well-designed, well-documented service recovery strategy also provides information that can be used to improve service as part of a continuous improvement effort. By making adjustments to service processes, systems, and

outcomes based on learning from service recovery experiences, companies increase the likelihood of “doing it right the first time”. In turn, this reduces costs of failures and increases initial customer satisfaction

There are tremendous downsides to having no service recovery or ineffective service recovery strategies. Poor recovery following a bad service experience can lead to customers who are so dissatisfied they become “terrorists”, actively pursuing opportunities to openly criticize the company. Further, repeated service failures without an effective recovery strategy in place can aggravate even the best employees. The costs in employee morale and even lost employees can be huge, but often overlooked, costs of not having an effective service recovery strategy.

Service Recovery Strategies

Not all companies are doing poorly at service recovery. Many have learned the importance of providing excellent recovery for disappointed customers. In this section we examine their strategies and share examples of benchmark companies and what they are doing. It will become clear that excellent service recovery is really a combination of a variety of strategies that need to work together.

Fail-safe Your Service – Do It Right the First Time!

The first rule of service quality is to do it right the first time. In this way recovery is unnecessary, customers get what they expect, and the costs of redoing the service and compensating for errors can be avoided. As you have already learned, reliability, or doing it right the first time, is the most important dimension of service quality across industry contexts. As the figure suggests, elements of a total service recovery strategy will lead in a circular fashion back to this most basic and fundamental of all service strategies – service reliability.

TQM, or total quality management, practices aimed at “zero defects” are commonly used. However, given the inherent differences between services and manufactured products, these tools typically require considerable adaptation to work well in service contexts. Firms that blindly adopt TQM practices, without considering services implications, often fail in their efforts.

It is important to create a culture of zero defections to ensure doing it right the first time. Within a zero defections culture, everyone understands the importance of reliability. Employees and managers aim to satisfy every customer and look for ways to improve the service. Employees in a zero defections culture fully understand and appreciate the “lifetime value of a customer” concept that was presented. Thus, they are motivated to provide quality service every time and to every customer.

Welcome and Encourage Complaints

Even in a zero defections organization that aims for 100 per cent service quality, failures occur. A critical component of a service recovery strategy is thus to welcome and encourage complaints. Complaints should be anticipated, encouraged, and tracked. The complaining customer should truly be viewed as a friend.

There are a number of ways to encourage and track complaints. Customer research can be designed specifically to do this through satisfaction surveys critical incidents studies, and lost customer research as discussed earlier. In a less formal manner, employees can be important listening posts, discovering sources of customer dissatisfaction and service failure on the front-line. They should be encouraged to report this type of information. For example, at Ritz-Carlton hotels, all

employees carry service recovery forms called “instant action forms” with them at all times so that they can immediately record service failures and actions to address them. Each individual employee “owns” any complaint that he or she receives and is responsible for seeing that service recovery occurs. In turn, the employees report these sources of service failure and the remedies. If common themes are observed across a number of failure situations, changes are made to service processes or attributes.

Part of encouraging complaints also involves teaching customers how to complain. Sometimes, they have no idea whom to speak to, what the process is, or what will be involved. It is best to make this process as simple as possible – the last thing customers want when they are dissatisfied is to face a complex, difficult-to-access process for complaining.

One way that the complaining process has been simplified for customers is through technology. New technologies have resulted in easier access for customers to sales and service representatives. Toll-free call centres, e-mail, and pagers are all used to facilitate, encourage, and track complaints. Software applications in a number of companies also allow complaints to be analyzed, sorted, responded to, and tracked automatically.

Act Quickly

Complaining customers want quick responses. Thus, if the company welcomes, even encourages, complaints, it must be prepared to act on them quickly. This requires systems and procedures that allow quick action, as well as empowered employees.

Take Care of Problems on the Front-line

Customers want the persons who hear their complaints to solve their problems whether a complaint is registered in person, over the phone, or via the internet. In the example given earlier, the Ritz Carlton insists that the first person to hear a complaint from a customer “owns” that complaint until he or she is sure it is resolved. That means that if a maintenance employee hears a complaint from a customer while the employee is in the middle of fixing a light in the hotel corridor, he owns that complaint and must be sure that it is handled appropriately before returning to his work.

Another obvious way to speed complaint handling is to call (or in some cases electronically respond to) customers, rather than send responses in the mail. Even customers who take the time to write can be called back. Smith and Hawken, a garden supply mail-order company based in California, found that this strategy of phoning customers worked well for them – they were quicker to respond to their customers, and the costs of the phone calls were offset by the reduced costs and time involved with paperwork.

Empower Employees

Employees must be trained and empowered to solve problems as they occur. At Advance PCS, a large pharmacy benefits provider covering 75,000,000 patients, the goal is to solve the customer’s problem on the first call. The company uses customer knowledge databases as the key source for immediate problem-solving by its customer-service representatives. These representatives are empowered to solve the customer’s problem, but at the same time they must adhere to stringent requirements necessary in the health and pharmaceutical administration business.

A problem not solved can quickly escalate. Take, for example, a true story of a corporate vice-president who sent an e-mail to his bank to register a complaint as he was attempting a transaction through its internet banking service. The e-mail was never answered. The customer then sent an e-mail

directly to the president of the bank. That e-mail was never answered either. Ultimately, the customer withdrew his approximately \$70,000 account because his complaint was not handled in a timely manner. In this case the technology was not effectively linked to other systems, nor ultimately to employees. The internet access encouraged the complaint, but the response never occurred.

Sometimes, employees can even anticipate problems before they arise and surprise customers with a solution. For example, flight attendants on a flight severely delayed due to weather anticipated everyone's hunger, particularly the young children. Once in flight, they announced to the harried travellers, "Thank you for your extreme patience in waiting with us. Now that we're on our way, we'd like to offer you complimentary beverages and dinner. Because we have a number of very hungry children on board, we'd like to serve them first, if that's OK with all of you". The passengers nodded and applauded their efforts, knowing that hungry, crying children could make the situation even worse. The flight attendants had anticipated a problem and solved it before it escalated.

For service employees, there is a specific and real need for recovery training. Because customers demand that service recovery take place on the spot and quickly, front-line employees need the skills, authority, and incentives to engage in effective recovery. Effective recovery skills include hearing the customer's problems, taking initiative, identifying solutions, improvising, and perhaps bending the rules from time-to-time.

Employees not only need the authority to act (usually within certain defined limits), but they should not be punished for taking action. In fact, incentives should exist that encourage employees to exercise their recovery authority. At the Ritz Carlton, employees are authorized to spend \$2,000 on behalf of the customer to solve a problem. This amount of money is rarely needed, but knowing that they have to encourages employees to be responsive without fear of retribution.

Allow Customers to Solve Their Own Problems

Another way that problems or complaints can be handled quickly is by building systems that allow customers to actually solve their own service needs and fix their own problems. Typically this is done through technology. Customers directly interface with the company's technology to perform their own customer- service, providing them with instant answers. This is the case with FedEx's package tracking services, for example. Our Technology Spotlight features a company that is a master at online customer- service – Cisco Systems

Treat Customers Fairly

In responding quickly, it is also critical to treat each customer fairly. As discussed in an earlier section, customers expect to be treated fairly in terms of the outcome they receive, the process by which the service recovery takes place, and the interpersonal treatment they receive. Examples, strategies and results of research focused on fairness in service recovery were discussed earlier. Here you are reminded that this fair treatment is an essential component of an effective service recovery strategy.

Learn from Recovery Experiences

"Problem-resolution situations are more than just opportunities to fix flawed service and strengthen ties with customers. They are also a valuable –but frequently ignored or underutilised – source of diagnostic, prescriptive information for improving customer-service". By tracking service recovery efforts and solutions, managers can often learn about systematic problems in the delivery

system that need fixing. By conducting root-cause analysis, firms can identify the sources of the problems and modify processes, sometimes eliminating almost completely the need for recovery. At the Ritz Carlton, employees record every service recovery opportunity and how it was handled; the employee who gets the complaint is required to do this. This information is then entered into the customer database and analyzed for patterns and systemic service issues that need to be fixed. If needed, a project team is assigned to a problematic area to develop a solution. In addition, the information is entered into the customer's personal data file so that when that customer stays at the Ritz-Carlton again (no matter what hotel), employees can be aware of the previous experience, ensuring that it doesn't happen again for that particular customer.

Learn from Lost Customers

Another key component of an effective service recovery strategy is to learn from the customers who defect or decide to leave. Formal market research to discover the reasons customers have left can assist in preventing failures in the future. This type of research is difficult, even painful for companies, however. No one really likes to examine their failures. Yet this is essential for preventing the same mistakes and losing more customers in the future.

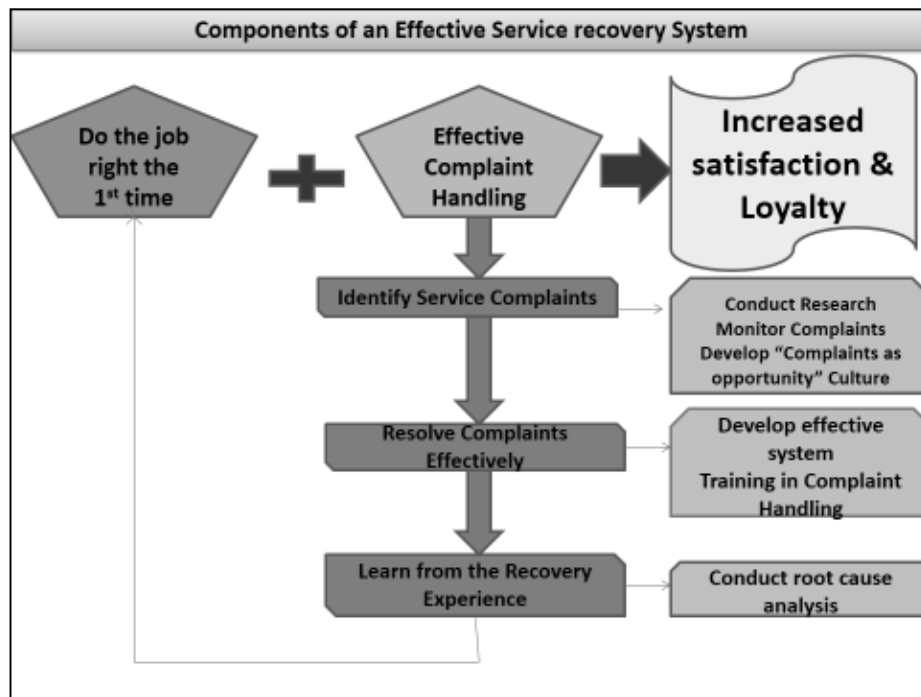
As presented chapter earlier lost customer research typically involves in-depth probing of customers to determine their true reasons for leaving. This is most effectively done by depth interviews, administered by skilled interviewers who truly understand the business. It may be best to have this type of research done by senior people in the company, particularly in business-to-business contexts where customers are large and the impact of even one lost customer is great. The type of depth analysis often requires a series of "why" questions or "tell me more about that" questions to get at the actual, core reason for the customer's defection.

In conducting this kind of research, it is important to focus on important or profitable customers who have left – not just everyone who has left the company. An insurance company in Australia once began this type of research to learn about their lost customers, only to find that the customers they were losing tended to be their least profitable customers anyway. They quickly determined that depth research on how to keep these unprofitable customers would not be a good investment!

Although the specific causes of customer defection will surely vary across industries and companies, some common themes have been observed in academic research. In a study of approximately 500 service-switching incidents, eight broad themes underlying the decision to defect were identified. These themes (pricing, inconvenience, core service failure, service encounter failure, response to service failure, competition, ethical problems, and involuntary switching) and their subthemes are shown in Fig. 3.4. In more than 300 of these switching incidents, more than one theme was represented. For example, one of the largest categories was "core service failure". In fact, 25 per cent of the incidents with only one cause cited core service failure as the reason for switching. In incidents where there were two themes, 29 per cent had core service failure as one of the causes for switching, and 22 per cent of the three-theme incidents included this cause.

Return to "Doing It Right"

The set of strategies described follows Figure 3.4 and leads directly back to the beginning: "fail-safe the service and do it right the first time". By integrating all of the strategies, companies will find less and less of a need for service recovery. Yet, when those situations do occur, they will be prepared to impress the customer and keep their business any way.



Customers' Reluctance to Change

Today companies are constantly changing their processes, policies, methods, operations and the way they deal with the customers. But one of the most important problem they face is the customer's reluctance to the changes made by the company. Customer may not be happier with the change. It may be difficult for the company to convince the customer to change their purchase and consumption behaviour. This reluctance throws a big challenge for the company and they need to tackle this tactfully. This can be done in the following two ways:

1. Highlight customer involvement in the decision.
2. Ask customer to evaluate changes the company has made.

By doing this company can give customer the insight about the changes made. It will involve the customer to be a part of the change system. This can also give the company the useful feedbacks of how to proceed with the changes.

REVIEW QUESTIONS

State Whether the Following Statement are True or False

1. Services have to be contended with uncertainties over customer involvement and what they expect.
2. A service is an activity or series of activities of more or less tangible nature.
3. "According to Kotler, Armstrong Saunders and Wong (1999) services are activity or benefit that one party can offer to another which is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product."

4. A close correlation exists between the level of economic development in an economy and the strength of its service sector.
5. Access to external markets and domestic reforms has played an important role in creating a dynamic agriculture sector in India.
6. In 1950-51, the share of agriculture in GDP was nearly 60 per cent and that of secondary and tertiary sectors was 13 per cent and 28 per cent respectively.
7. Liberalization of the economy refers to the changing nature of policies and procedures to facilitate more growth and ensuring better standards of living.
8. This conception identifies with the marketing one, and the services become an integral part of the dynamics that characterizes the actions which complete the proper commercial administration.
9. Perishability refers to the fact that unlike physical goods, services cannot be stored.
10. Clients can see or touch services before they purchase them.
11. Brand in service businesses is about who you are as much as what you say about yourself.
12. Nevertheless, the developing countries have been also accorded overriding priority to service sectors to diversify their development and raise the standard of living.
13. Micro environment are internal to the organization and affect the individual service directly.
14. Customers find themselves in different buying situations, from purchase- to-purchase and service transaction-to-service transaction

Ans: 1. True 2. False 3. True 4. True 5. False, 6. True 7. True 8. True 9. True 10. False 11. True 12. True 13. True 14. True

Fill in the Blanks

1. A service is an act or performance offered by one party to _____.
2. The best way to define services is to distinguish between core and _____ elements of the services.
3. With the US shifting the NAFTA manufacturing jobs shifted from Canada and US to _____.
4. Services play a central role in the economies of both developed and _____.
5. The services sector is the most _____ sector as it is an agglomeration of a large number of sub-sectors.
6. Suppliers of services seem to be always have a very different set of _____.
7. Privatization and globalization connects a wide range of ideas which has led to the increased contribution of _____.
8. During the process of services policy application there have been identified _____.
9. In service industry a contact between the operations personnel and is a real truth but the contact varies depending upon the nature of _____.
10. Consumers obtain information about products and services from personal and _____ sources.

Ans: 1. another 2. peripheral 3. Mexico 4. developing countries 5. heterogeneous 6. concerns
7. services 8. three stages 9. service 10. non-personal

Terminal Questions

1. Define services and give a brief classification of services
2. Explain the growing importance of service
3. Explain the progress of service marketing in developing and developed countries
4. Explain the reasons for deteriorating quality in service field
5. Explain the factors possessing threat to service management
6. Distinguish and elaborate the difference between goods and services
7. Attribute the reason for rapid growth of service sector in the global as well as Indian context
8. Write short note on four key characteristics of services
9. What is meant by intangibility and non-inventorying to service organizations and method by which its impacts may be reduced?
10. What are the major factors that driving the growth of the service in India? Discuss in detail.
11. Explain in detail insight of the distinctive characteristics of services?
12. Explain in detail importance and growth of services?
13. Explain the role of services in modern economy?
14. Write short note on problem arising from the characteristics?
15. What are the different marketing challenges faced by the service industries?
16. How can service quality be defined and improved when the product is intangible and non-standardized?
17. How service marketing is different in developed and developing countries?
18. Explain in detail different types of environment for service marketing?
19. Write short note on GOODS V/S. SERVICE MARKETING?
20. Write short note on service marketing triangle?



Chapter 2

Key Elements of Services Marketing Mix

Structure:

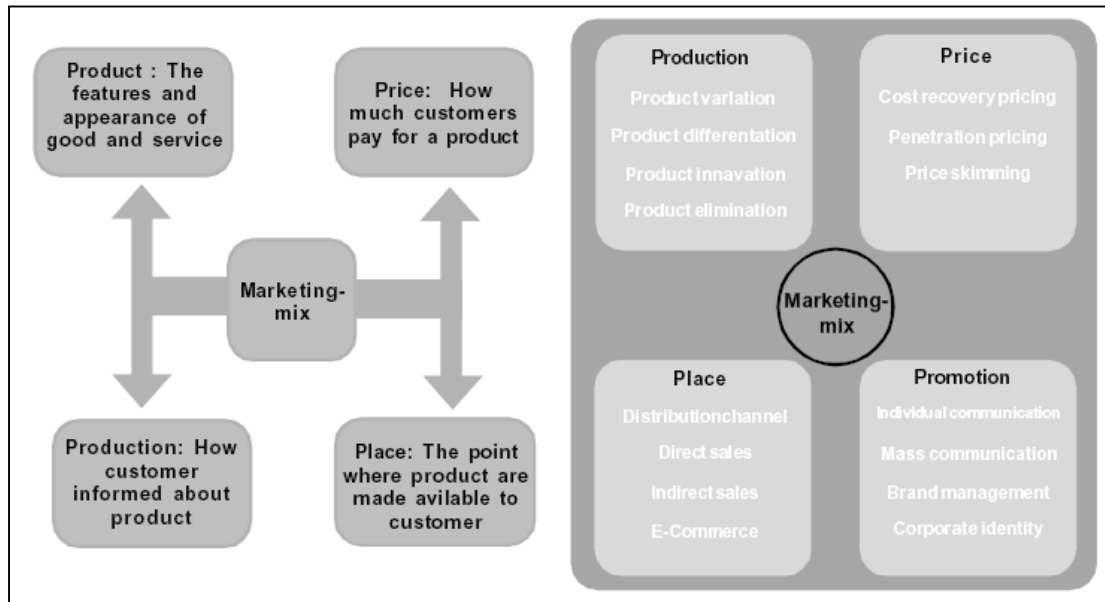
- ☞ Four Ps
- ☞ Product in Services
- ☞ Pricing in Services
- ☞ Market-oriented Pricing or Demand-based Pricing
- ☞ Incorporating Perceived Value into Service Pricing
- ☞ ‘Pricing Strategies’ as Part of The Service Marketing Mix
- ☞ Communication in Services
- ☞ Distribution (Place) in Services
- ☞ People In Services
- ☞ Physical Evidence Services
- ☞ Process Services
- ☞ Market Segmentation
- ☞ Balancing of Demand and Capacity in Services
- ☞ Demand Patterns
- ☞ Four Keys to Launching your Service Brand... The Right Way
- ☞ PR
- ☞ Review Questions

The Service Product, Pricing Mix, Promotion and Communication Mix, Place/Distribution of Service, People Evidence, Proves-Service Mapping-Flow-charting

The term “marketing-mix” was first used in 1953 when Neil Borden, in his American Marketing Association presidential address, took the recipe idea one step further and coined the term “marketing-mix”.

A prominent marketer, E. Jerome McCarthy, proposed a 4 Ps classification in 1960, which has seen wide use. The four Ps concept is explained in most marketing textbooks. The marketing-mix is the combination of product, price, place and promotion for any business venture. No one element of the marketing-mix is more important than another – each element ideally supports the other. Firms

modify each element in the marketing-mix to establish an overall brand image and unique selling point that makes their products stand out from the competition.



FOUR PS

Elements of the marketing-mix are often referred to as 'the four Ps':

Product: A tangible object or an intangible service that is mass produced or manufactured on a large scale with a specific volume of units. Intangible products are service - based like the tourism industry and the hotel industry or codes-based products like cellphone load and credits. Typical examples of a mass produced tangible object are the motor car and the disposable razor. A less obvious but ubiquitous mass produced service is a computer operating system. Packaging also needs to be taken into consideration.

Price: The price is the amount a customer pays for the product. It is determined by a number of factors including market share, competition, material costs, product identity and the customer's perceived value of the product. The business may increase or decrease the price of product if other stores have the same product.

Place: Place represents the location where a product can be purchased. It is often referred to as the distribution channel. It can include any physical store as well as virtual stores on the internet.

Promotion: Represents all of the communications that a marketer may use in the marketplace. Promotion has four distinct elements: advertising, public relations, word of mouth and point of sale. A certain amount of crossover occurs when promotion uses the four principal elements together, which is common in film promotion. Advertising covers any communication that is paid for, from cinema commercials, radio and internet adverts through print media and billboards. Public relations are where the communication is not directly paid for and includes press releases, sponsorship deals, exhibitions, conferences, seminars or trade fairs and events. Word of mouth is any apparently informal communication about the product by ordinary individuals, satisfied customers or people specifically

engaged to create word of mouth momentum. Sales staff often plays an important role in word of mouth and Public Relations (see Product above).

The industrialization of services business model is a business model used in strategic management and services marketing that treats service provision as an industrial process, subject to industrial optimization procedures. It originated in the early 1970s, at a time when various quality control techniques were being successfully implemented on production assembly lines. Theodore Levitt (1972) argued that the reason the service sector suffered from inefficiency and wide variations in quality were that it was based on the craft model. Each service encounter was treated as an isolated event. He felt that service encounters could be systematized through planning, optimal processes, consistency, and capital intensive investments. This model was the foundation of the success of McDonalds and many other mass service providers in the 1970s, 80s, and 90s till date.

Unfortunately, the application of assembly line techniques to service provision had several undesirable consequences. Employees found working under these conditions dis-empowering, resulting in low morale, high staff turnover, and reduced service quality. One of the most difficult aspects of this model for employees to deal with was the “smile incentives”. Employees were instructed to put a smile on their face during the service encounter. This manufacturing and commercialization of apparent happiness has been criticized by many commentators, particularly Mundie (1987). Also many customers prefer the “personal touch”. By the early 1990s most service providers turned their attention back to the human element and personalized their services. Employees were empowered to customize the service encounter to the individual characteristics of customers. Service economy can refer to one or both of two recent economic developments. One is the increased importance of the service sector in industrialized economies. Services account for a higher percentage of US GDP than 20 years ago. The current list of Fortune 500 companies contains more service companies and fewer manufacturers than in previous decades. The term is also used to refer to the relative importance of service in a product offering. That is, products today have a higher service component than in previous decades. In the management literature this is referred to as the servitisation of products. Virtually every product today has a service component to it. The old dichotomy between product and service has been replaced by a service-product continuum. Many products are being transformed into services. For example, IBM treats its business as a service business. Although it still manufactures computers, it sees the physical goods as a small part of the “business solutions” industry. They have found that the price elasticity of demand for “business solutions” is much less elastic than for hardware. There has been a corresponding shift to a subscription pricing model. Rather than receiving a single payment for a piece of manufactured equipment, many manufacturers are now receiving a steady stream of revenue for ongoing contracts. James Murrdock once said “When GDP are low...the service based economy must be also”.

Full cost accounting and most accounting reform and monetary reform measures are usually thought to be impossible to achieve without a good model of the service economy. A service is the intangible equivalent of a good. Service provision is often an economic activity where the buyer does not generally, except by exclusive contract, obtain exclusive ownership of the thing purchased. The benefits of such a service, if priced, are held to be self-evident in the buyers willingness to pay for it. Public services are those society pays for as a whole through taxes and other means. By composing and orchestrating the appropriate level of resources, skill, ingenuity, and experience for effecting specific benefits for service consumers, service providers participate in an economy without the restrictions of carrying stock (inventory) or the need to concern themselves with bulky raw materials. On the other hand, their investment in expertise does require consistent service marketing and

upgrading in the face of competition which has equally few physical restrictions. Many so-called services, however, require large physical structures and equipment, and consume large amounts of resources, such as transportation services and the military. Providers of services make up the tertiary sector of the economy.

Having discussed the characteristics of a service, let us now look at the marketing-mix of a service.

The service marketing-mix comprises of the 7 Ps. These include:

- Product
- Price
- Place
- Promotion

As discuss above and three additional Ps

- People
- Process
- Physical evidence.

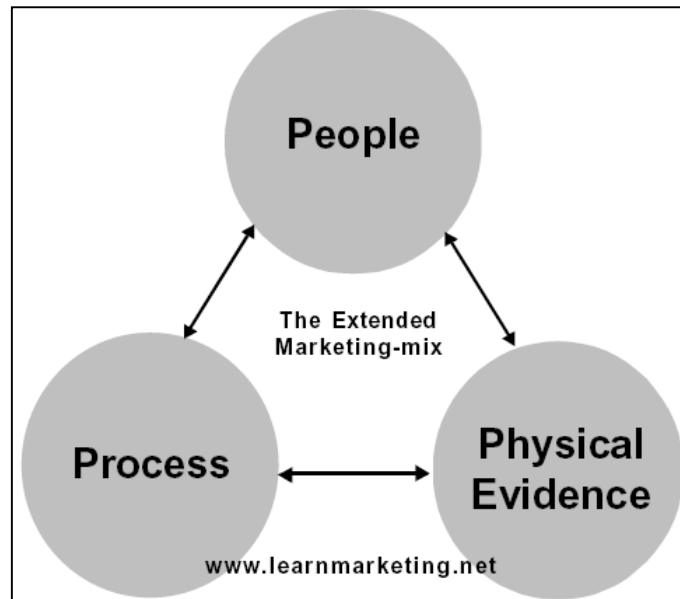
Lets now look at the remaining 3 Ps:

People: An essential ingredient to any service provision is the use of appropriate staff and people. Recruiting the right staff and training them appropriately in the delivery of their service is essential if the organization wants to obtain a form of competitive advantage. Consumers make judgments and deliver perceptions of the service based on the employees they interact with. Staff should have the appropriate interpersonal skills, aptitude, and service knowledge to provide the service that consumers are paying for. Many British organizations aim to apply for the investors in people accreditation, which tells consumers that staff are taken care off by the company and they are trained to certain standards.

Process: Refers to the systems used to assist the organization in delivering the service. Imagine you walk into Burger King and you order a Whopper Meal and you get it delivered within two minutes. What was the process that allowed you to obtain an efficient service delivery? Banks that send out credit cards automatically when their customers old one has expired again require an efficient process to identify expiry dates and renewal. An efficient service that replaces old credit cards will foster consumer loyalty and confidence in the company.

Physical Evidence: Where is the service being delivered? Physical evidence is the element of the service mix which allows the consumer again to make judgments on the organization. If you walk into a restaurant your expectations are of a clean, friendly environment. On an aircraft if you travel first class you expect enough room to be able to lay down!

Physical evidence is an essential ingredient of the service mix, consumers will make perceptions based on their sight of the service provision which will have an impact on the organizations perceptual plan of the service.



The service marketing-mix involves analyzing the 7 Ps of marketing involving, Product, Price, Place, Promotion, Physical Evidence, Process and People. To certain extent managing services are more complicated than managing products, products can be standardized, to standardize a service is far more difficult as there are more input factors, i.e., people, physical evidence, process to manage then with a product. Marketing a service business is not the same as marketing a product. When marketing a retail good, you are selling a product that is tangible – an item that can be seen, handled and used. Consumers can gain information and evaluate the product based on what they see.

Marketing a product focuses on getting the item to as many people as possible. You can sell and ship a product to any geographical area, as it allows for physical handling. Hence, broad marketing strategies designed to reach the largest possible audience like mass-market techniques, in-store promotions, and direct mail work perfectly for a product-based business. In a service business, you are marketing yourself – your expertise and capabilities, your reliability, and commitment to excellent service. Your service technically does not exist until the customer pays for it. Service is not a tangible good, so what you are selling is the promise to deliver what you set out to deliver. Your marketing efforts will have to focus on communicating that promise to your clientele.

Mass marketing strategies do not work well with a service business. You are constrained by the amount of clients you can service well. To please your clients, you can focus only on a select number of accounts or customers to sustain your business. If you decide to get as much clients as possible, there is risk that you will spread yourself too thin that the quality of your work eventually suffers. A solo home-based web designer, for example, cannot mass market his services as he can only create a limited number of web pages in a day. A massage specialist can only massage a finite number of clients before her hands give up. A wedding consultant can coordinate a few clients at one time to ensure optimum service. The doctors and the dentists too selling a service is more difficult than selling a tangible product. Consumers are much less certain when they are buying a service, since what they are buying is merely a promise that someone will do something for them in a way that will satisfy their

expectations. Authors Jean Withers and Carol Vipperman in their book “Marketing Your Service Business”, recommend the following promotional tools in marketing a service business:

1. Referrals: The recommendation of a satisfied client or a professional colleague is often the most effective way of bringing in new clients. People tend to view recommendations from those who have previously used the service as highly credible, and are more inclined to use the recommended service. Referrals, however, do not always come easily. Most often, you have to ask for it. If one of your clients seem satisfied with your service, request him or her to refer your business to their friends or acquaintances who may benefit from your service. To reinforce your request, you may give them promotional materials such as business cards or brochures that they may share with others. Other entrepreneurs even make it a point to reward those who refer a client to them. It may not be money (some professions frown on the practice of giving money for referrals), but a simple note or a small act of thoughtfulness to show your clients that you appreciate their effort to spread the word about your business.

2. Client Relations: The authors define client relations as “consistent courtesy + common sense + professional dignity = effective client relations”. Clients will patronize your service repeatedly – if they are satisfied. It is therefore important to cultivate your existing client base and bond with them. Your beauty salon may not have the latest hair-styling techniques, but if you treat your customers well, you’d have a greater chance of seeing them back to your shop again. More than a product-based business, you need to practice excellent customer service every second that you deal with a client. Our business depends on it.

3. Participation in Organizations: Networking is the key promotional technique in marketing a service business, and participating actively in organizations is the best way to network. Joining an organization allows you to network with potential clients and industry players, increase your exposure to your community and professional colleagues, and even get new business. You can choose from the more general organizations, (e.g., small business groups) with members coming from all walks of life or industry specific organizations.

Your competitor, who belongs to the same organization as you, may be experiencing a surge in demand and direct some of his or her clients to you instead. Another member may refer your business to people they know who needs the kind of service you provide. Of course, you must make your participation in these organizations worthwhile by actively participating in the group’s projects and activities.

Networking has been made easier with Web 2.0 social networking sites. LinkedIn.com or Facebook.com facilitates the meeting of potential clients, partners and strategic alliances.

4. Direct mail: A good way to promote your business is to send letters or brochures to your target market. The key to success in direct mail is to reach out to the right people. An accountant I know watches out for the listings of new businesses in the Washington D.C. area published by a local business journal. He then sends a letter to owners of these new businesses offering his services. The business he generates from his mailings more than compensate for the yearly subscription to the publication. You also need to regularly send out mail to your existing clients, if only to remind them of you and what you can do to help them. Mailing to previous customers is an absolute must, whether you are sending them a quarterly newsletter or an announcement of a new service or promotions such as discount of the regular price of a service, etc. Another important tool in marketing your service business is a website. For the price of an advertisement in the yellow pages, you can have a website

that can serve as a brochure, direct mail piece and newsletter all rolled into one. The web is an avenue that should never be ignored.

PRODUCT IN SERVICES

Introduction

A 'product' can be defined as an idea, a service, or a good that involves a mix of tangible and intangible elements, which aim to satisfy consumers. It is traded for money or any other trading unit which has some value attached to it. Why doesn't a customer hesitate to pay a higher price for a McDonald's burger when compared to a burger at a roadside bakery? Or why does a customer pay high fares and travel on British Airways when he can travel at cheaper rates on other airlines? The answers to these questions lie in the way these businesses package their service offerings.

Packaging a service is a critical element of the marketing-mix. At times, some of the best product designs might fail due to poor packaging. Therefore, how a business designs and presents its services to the customers is very important. Marketers are required to sufficiently differentiate their service offerings from those of their competitors. Additionally, they should also develop a strong brand by adding the right proportions of the other six elements of the marketing-mix. They should also include a larger number of tangible clues that would reduce the perceived risk of customers and help them choose a particular service.

Service Product Level

A product can be either tangible or intangible in nature. Intangible products can be in the form of services, people, places, or ideas. Customers seek various benefits when they purchase a tangible or intangible product. Customers have varied needs attached to a single product. Typically, there are four levels of a product, namely, core level, actual level, augmented level, and potential level. Therefore, service providers should clearly understand and satisfy their customers' needs first at the core level by offering them the core benefits, and then at the actual level by attaching tangible aspects to the intangible services. Later, service providers should satisfy the augmented needs of the customer by providing them superior service finally, they should try to satisfy the potential needs of the customers by including features or benefits that can add value to the customers. Figure 2.1 shows a diagrammatic representation of all these four product levels. Now we shall discuss these four levels in detail.

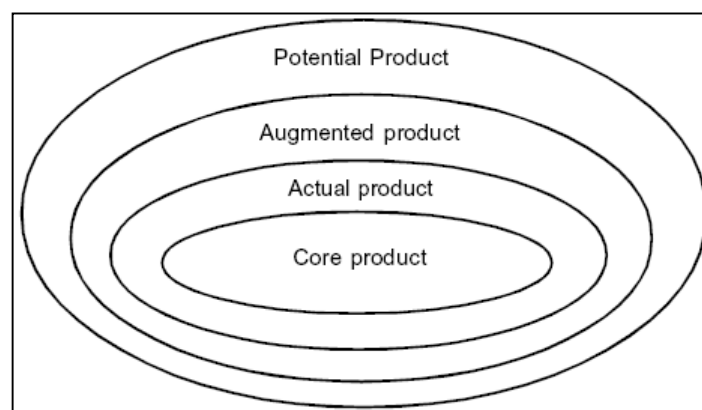


Fig. 2.1: Service Product Levels

The Core Product

The core benefit of any product is to satisfy the basic needs of a customer. Therefore, marketers should first decide on the core benefits the company has to offer its customers. For example, when a customer hires the services of a tax consultant, he expects the consultant to calculate the tax to be paid on his income. This is the core service offered by the consultant. However, due to heavy competition and very little to differentiate between different players, marketers have designed products that offer multiple and customized benefits in order to attract and retain customers. For example, the tax consultant might offer to file the tax returns on behalf of the customer and spare him the trouble of waiting in long queues. He may even offer suggestions on various investment tools to increase the customer's tax savings. Similarly, many management consultants have started to look after company incorporations (bringing a company into existence according to Companies Act, 1956) in addition to consulting and auditing services.

The Actual Product

The tangible aspects attached to the service, along with the service, constitute the actual product. This facilitates the delivery of core benefits to the customers. Therefore, marketers should develop the actual product after the core benefit has been decided. The characteristics of actual products are features, design, quality level, packaging, and brand name. For example, when a company hires the services of a reputed consultant like McKinsey, the quality, some special features and design/packaging and the brand name accompany the core service of consultation. Fig. 2.2 shows a diagrammatic representation of all these five characteristics.

The Augmented Product

The intangible aspects that support a service constitute the augmented product along with the actual product. These are developed around the actual and core products to satisfy the customer. Warranty, installation support, delivery, customer service, etc., are some examples of augmented product characteristics. Marketers have an opportunity to differentiate their services with the help of augmented product characteristics. For example, when a customer hires the services of a caterer for his wedding, the core service is providing food for the guests. If the caterer takes care of decorating the dining hall, inviting the guests and serving them well; it is an augmented product.

The Potential Product

The features or benefits that can be added and which would be of value to the customers contribute to the potential product. This scope for adding more benefits or features, provides an opportunity for marketers to redefine their products by extending the present offerings and thus attracting new customers. For example, when a woman goes to a parlour for a change in her hairstyle, she has to choose from the hairstyles shown in the posters out there. However, the hairstyle she chooses may look good on the model in the photograph, but not on her. She might want to know how she would look in a particular hairstyle. The parlour can enable customers to choose their hairstyle with the help of new technology. They can load software that helps them to superimpose various hairstyles on the image of a customer and let the customer choose the one she feels suits her the best. In fact, there are some salons which offer this feature.

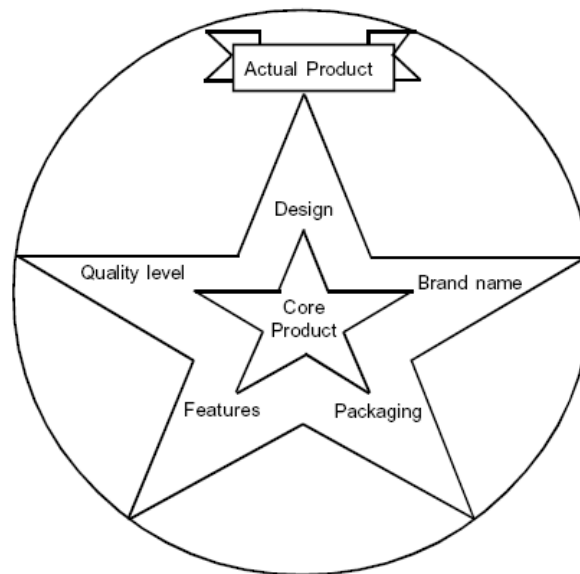


Fig. 2.2: Actual Product Level

Service Product Decisions

Service product decisions can be taken at various stages in the business cycle of the service provider. A service provider may start his business by offering a service, and he may add more services at later stages. For example, an internet service provider could initially start his business by providing e-mail facilities alone, but later on he might introduce new facilities like voice-chatting, web camera, net-2-phone, etc. A business can adopt any of the four growth strategies – penetrating the markets with existing services, entering new markets with the existing services, expanding the existing markets with new services, and entering new markets with new services. These four growth strategies proposed by Igor Ansoff are known as market penetration, market development, new service development, and diversification. They are discussed in detail below. Fig. 2.3 provides a diagrammatic representation of Ansoff's matrix.

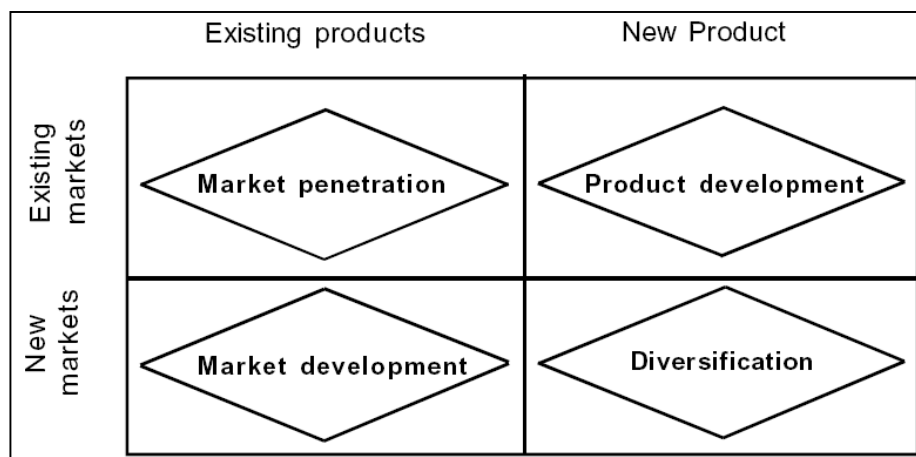


Fig. 2.3: Ansoff's Product – growth Matrix

Market Penetration

Market penetration is a growth strategy, wherein the service provider seeks to sell more of the existing products in the **existing markets** to achieve a larger market share. This strategy involves the lowest risk among all the growth strategies discussed. Companies adopting this strategy do not make any changes to their existing services or the segments they serve, but attempt to improve their market position using any of the following market penetration strategies.

- **Maintaining or increasing the market share of existing services:** A service provider can maintain or increase the market share of the existing services through promotional activities, aggressive advertising, brand re-positioning, or new pricing strategies. For example, Airtel has re-positioned its brand from 'Touch Tomorrow' to 'Live Every Moment' as part of a market penetration strategy.
- **Driving away competitors by restructuring a mature market:** This strategy requires a service provider to project the market as unattractive for competitors by designing a suitable (low-price) pricing strategy and by engaging in aggressive promotional activities. For example, if an existing cellular service provider lowers the rates of its services substantially, then a potential competitor might not consider entering the market as the pricing structure is unattractive.
- **Inducing existing customers to use the services frequently:** Service providers can achieve higher growth by inducing existing customers to use the services more frequently. This can be done by introducing loyalty schemes or offering club memberships, which encourage customers to use a particular service. For example, Jet Airways has introduced frequent flier programmes to encourage their passengers to use their services more frequently.

Market Development

By adopting a market development strategy, a company aims to expand its business by entering new markets with its existing services. This strategy involves medium risk. It can be adopted in the following ways:

- The company can enter new geographical markets. For example, FedEx has successfully expanded its market by offering its services in many countries across the world.
- The company can identify new market segments. For example, airlines have reduced the prices of economy class tickets to attract passengers who would otherwise have opted for other modes of travel.
- The company can adopt new distribution channels to improve the reach of a particular service. Some insurance companies use the services of banks for selling their policies to customers. For example, Life Insurance Corporation of India has tied up with banks like HDFC, ICICI/UTI, and GTB to allow the common customers to pay their premium through internet banking or mobile banking.

Product/Service Development

Product development strategy involves introduction of new products/ services in the existing markets. This strategy involves medium risk as the customers are known and it is only the service that is new. It demands additions or improvements in the existing facilities or skills and might require modifications in the service delivery to attract the attention of existing markets. For example, Life Insurance Corporation of India, one of the leading players in the insurance market, has started offering

mutual funds as investment options to the customers. In this case, the market (investors) more or less remains the same and it is the service offering (mutual funds) that is new.

Diversification

A company that adopts a diversification strategy enters a new market with new products or services. This strategy involves greater risk when compared to other strategies, as the company is experienced neither with the market nor with the product. For example, the entry of the Tata group into the field of mutual funds as Tata Mutual, Funds is an example of diversification. Similarly, Wipro started offering BPO services to new clients (and also its existing IT clients) through its BPO arm Wipro Spectramind. This is a good example for diversification. However, a company should carefully assess all possible risks when adopting a diversification strategy. Further, it should set clear goals that can be met by adopting this strategy.

For example,

“Incredible India”
<p>Indian Tourism Board in association with Experience India Society has launched the ‘Incredible India’ campaign to attract upscale tourists from across the world. For the first time, the Ministry of Tourism (MoT) has presented the country’s tourist destinations as one brand representing all the Indian states. Ogilvy and Mather, advertising agency, has helped to release powerful print and electronic advertisements. To create brand awareness and attract global tourists, it has launched television commercials on premium channels like CNN, Discovery, BBC, and Travel. Moreover, it has released advertisements through the print media in popular publications like Vogue and Financial Times.</p> <p>The tourism board has also launched an online campaign involving contests on popular websites like MSN, Google, and Yahoo. The tourism board conducted a global media meet inviting travel writers across the world to communicate the developments in Indian Tourism. The opening up of airline industry also helped to attract more customers by making air travel more affordable. These activities undertaken by the tourism board have establish India as a single product with attractive and rich culture. Thus, India is rated among the top ten destination spots by global tourists and this increased its market share in tourism among other Asian countries like Malaysia, Singapore, Hong Kong, and China.</p>

PRICING IN SERVICES

Introduction

An important element of the marketing-mix and the one that brings in revenue for a company is pricing. The pricing strategy developed by a company can either help the company reap the maximum profits or throw it out of business. Companies must ensure that their pricing structure covers the costs incurred to produce a service, earns profitable margins for the company and at the same time, provides the maximum value to the customers. Further, companies should not design a pricing structure in isolation; rather it should be consider and design it along with the other elements of the marketing-mix.

The pricing of services is different from the pricing of goods in many ways. Price has a single name in the manufacturing sector, whereas it takes different names in the services sector. For example, the price charged for advertising is known as commission, for boarding and lodging services, as tariff; for legal services and health care as fees; and for share or stock services as brokerage and commission. Pricing of goods is determined by the market demand in most cases, unless regulated by the government. On the other hand, price is controlled by different bodies for various services. For

example, prices for government provided services like the railways are completely controlled by the government; prices for services like banking, power, telephone, and insurance are partially regulated by the government, prices in hotels, domestic services, auto servicing, personal care services, recreation, etc., vary according to the demand in the market; and prices of advertising services, hospitals, expert services like lawyers and stock brokers are determined by the service providers themselves.

Further, the price of a service is perceived by customers in various ways. For example, a service that is high priced is considered to be of premium quality. On the other hand, prices vary in services where limited standardization is possible. For example, prices for personalized services like hair-styling are not standardized as they vary according to the style opted for by the customer. However, the processes opted for hair-styling may be standardized. As services are perishable in nature, the demand for a particular service at a given point determines the changes in price to a large extent.

Key Characteristics of Pricing in Services

In general customers' perceptions of prices are different for goods and services. For example, a customer can easily perceive that a flat screen television or a home theatre is worth a higher price than a normal convex screen television. However, evaluating the price attached to travelling on a particular airline or choosing a holiday destination is not equally simple. Let us now discuss the differences in customer perceptions of price between goods and services.

Price is a measure of quality in services: A customer turns to pricing to assess the quality of a service when he does not have any information from other sources like a company's advertising activities or its brand name that would highlight the company's reputation. Pricing is considered to be

the best measure of quality, especially in services whose quality or price differs widely from the other players in a group of service providers. For example, when a beauty parlour offers a facial at ₹ 250 against the average market charge of ₹ 150 and promises quality, the customer has a better feeling about the quality of service. Therefore, most of the premium service providers price their services higher than the market price. Further, pricing helps customers estimate the quality of services with high credence properties and thus minimize the perceived risk involved in the purchase. For example, services like medical treatment, education facilities, or consulting services involve high-risk and high credence properties; therefore, customers tend to rely on pricing in the absence of other information, to judge the quality of these services. Service providers should, therefore, design a pricing strategy that stands as evidence for the quality of services offered by them.

Non-monetary costs and pricing: Researchers have found that certain non-monetary costs are also incurred by the customers in the process of consuming a service or purchasing a product. Therefore, the demand for a service is also affected by these non-monetary costs. Consumers perceive that they have incurred certain other costs in addition to the actual price paid for the service and these costs are known as non-monetary costs. They include time cost, search cost, psychological cost and convenience cost.

Time cost involves the time spent by consumers in co-producing the service or in waiting to receive the service. For example, the time spent by a patient in the outpatient wing of a hospital to meet the doctor and receive a prescription, or the time spent by a customer in the restaurant to give an order and then have it served, constitute the time cost involved in the two cases. Customers often have

to spend their time to receive a service. Therefore, service providers should try to minimize the time spent by the customers in the process of availing of a service.

Search cost involves the efforts made by a customer to recognize and choose the required service. The search costs of services are high compared to those of goods as the prices of goods are easily known and this facilitates comparison. For example, say a customer wants to hire a taxi from Mumbai to Pune. He enquires about the cost from three-four service providers before selecting the cheapest one. However, when he stops midway for filling in petrol, he sees the standard price of petrol displayed and gets it filled in the tank. Therefore, customers have to gather information from various service providers before making a decision. The only exception to the point is in the insurance or financial services, where agents or brokers provide all the information required by a customer.

Psychological costs are borne by the customers either at the time of buying the services or at the time of consuming them. A customer's fear of those terms in an insurance policy which he cannot understand, or his fear of being rejected by a banker when he applies for a loan, are examples of psychological costs. Psychological costs are incurred by some customers even when positive changes are introduced in service consumption. For example, when airlines started offering online reservation, customers were not comfortable about giving out their credit card numbers to reserve the ticket. Convenience costs involve the inconvenience faced by customers in consuming the service and is different from the time, search and psychological costs. For example, when a resort or a hotel opens a spa beyond the outskirts of the city (say 20 Kms away from the city limits), customers are put to some inconvenience in travelling to the resort and back. They will include this inconvenience cost as a non-monetary cost involved in consuming the service.

Difficulty in comparing prices of services: Every consumer has some reference price in mind when purchasing a product. The reference price can be an amount paid by the customer in the past for the same service or the price paid by a friend or acquaintance for a similar service. The pricing structure in services is quite complicated, as a wide variety of services can be offered due to the flexibility involved. For example, when a customer desires a room in a hotel, he can reserve either an AC or a non- AC room with a double or single bed. In addition, the prices vary for each combination. In addition, the intangible feature of services makes it more difficult for customers to assess the value of various services and compare them. For example, while Indian Airlines charges ` 3,750 for the economy class travel between Mumbai and Hyderabad, Jet Airways charges ` 4,025 for the same service. It becomes difficult for the passengers to compare their prices relative to the service provided by them.

Prices vary with demand: The pricing of services also varies with the demand for a particular service and this demand depends on the seasonal variations either directly or indirectly. For example, Goa Tourism Development Corporation Ltd., has different off-season charges for its various tour packages. Similarly, hotels can vary their room charges for AC rooms during the season and off-season.

Pricing Objectives

The pricing strategies of a firm depend largely on the objectives of the firm and the way it wants to position itself in the market. Therefore, marketers should have a clear understanding of the company objectives and market conditions to design an effective pricing strategy. Let us now discuss some of the common objectives of a company.

Survival: When a company fails to manage its business in terms of failure to meet the changes in consumer needs and expectations, or beating the competition, it sets survival as its basic objective with a hope of reviving later. It lowers the prices of its products or services in order to cover its variable costs and a part of its fixed costs and goes easy on its margins. Companies, thus, sacrifice their profitability by reducing their prices so as to sustain themselves in the market. For example, an airline that is unable to withstand the aggressive competition in the market reduces its fares temporarily in order to stay on in the business. However, it could later try to improve its position by developing new strategies to beat the competition and thrive in its business.

Present Profit Maximization: A company sets this objective with the aim of increasing its current profits from the business. Companies adopting this objective analyze the demand and costs at different prices and select a price that will result in high current profits, return on investment, or cash flows for a certain time period. For example, say a hotel enjoys 100 per cent occupancy and 10 per cent profits if it fixes its room tariff at ₹ 800 per day. If it changes the room charges to ₹ 1,000 per day, it enjoys only 70 per cent occupancy, but the profits are higher at 20 percent. If it further increases its room charges to ₹ 1,200 per day, the occupancy reduces to 50 per cent and the profits also reduce to 15 per cent. Based on this data, if the hotel looks at maximizing profits, it prices its rooms at ₹ 1,000 per day.

Present Revenue Maximization: A company may set the prices of its services so as to maximise the revenues from sales. Companies adopting this objective believe that by initially setting low prices, the company can increase its market share. This, in turn, can lead to economies of scale and increased profits in the long-term. For example, cellular service providers in India are setting lower prices than competitors in the industry to gain a larger market share. However, companies should be careful not to lower the prices so much that sustenance becomes difficult.

Prestige: A company that wants to position its services in the premium genre might charge very high prices from its customers. This pricing is mostly practised by high scale hotels who charge high prices to attract elite class customers. For example, the Oberoi and the Sheraton hotels are categorized as premium hotels for their high-class quality and high charges.

Product quality leadership: A company that aims to position itself as a superior quality service provider charges high prices to compensate for the costs incurred in providing premium quality services and in its investment in research and development. For example, some health clubs charge higher prices than gyms or fitness centres for their services.

Apart from the above objectives, a company can also price its services in such a way as to make the market unattractive for the competition, to attract customers for a short period, etc. The pricing objectives are basically dependent on various factors like,

- How would a company like to position its services?
- Are the prices chosen are compatible with the corporate objectives?
- How do the competitors react to the price changes made by a company?
- What is the duration of the life cycle of the services?
- How does the elasticity of demand fluctuate?
- Is the service capacity overutilised or underutilised?

Approaches to Pricing Services

Generally, organizations can design many pricing strategies and this can be quite confusing and misleading for a company. To get a clear idea, organizations can group these strategies under three main headings, namely, cost-based pricing, demand-based pricing and competition-based pricing. Let us now discuss all these three strategies in detail. Fig. 2.4 gives a diagrammatic representation of the three pricing approaches.

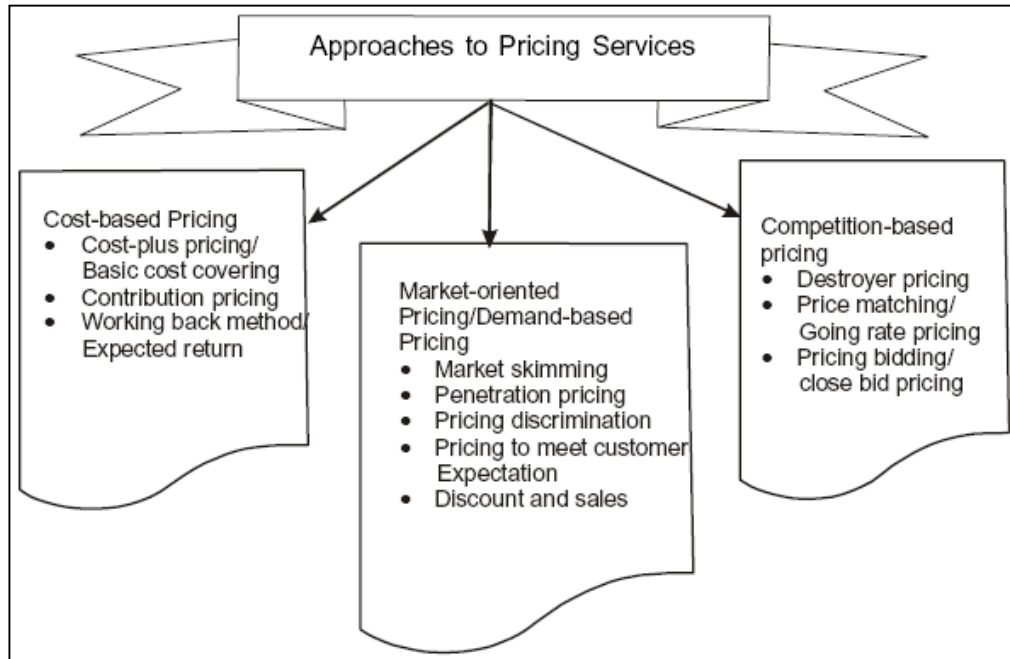


Fig. 2.4: Approaches to Pricing Services

Cost-based Pricing

Cost-based pricing can be better understood with a basic understanding of direct and indirect costs. Direct costs are those that are incurred on producing a product or service and can be attributed to it. For example, the cost incurred on providing telecom service from an exchange is a direct cost for the exchange. Direct costs are associated with the fundamental existence of the business. Indirect costs cannot be associated with the production or with the existence of products or services, but are necessary to run the business. The cost incurred by a telecom service provider in paying the license fee to serve the customers of a region is an example of indirect costs. These indirect costs are also known as 'overheads'. Let us now discuss the types of pricing under cost-based method.

Basic cost covering/cost-plus pricing: This is the easiest way of pricing a service. This process allows a service provider to cover all the direct costs and gain a profit. However, indirect costs are not covered in this method and the needs of the customer are not taken seriously.

Contribution pricing: With the help of contribution pricing, a service provider can cover all the direct costs (per product service offering) and can further contribute a certain amount towards covering the indirect costs and making a profit. This contribution can be spread over to overheads and services for a wide range of service offerings.

Working back method (Expected return): In this process, a service provider first estimates the cost of producing a particular service and the amount of profit he would like to gain. Then he works and back and sets the price of the service. If the price of the service is too high compared to that of other service providers, and if the price has a substantial effect on the demand for the service, then the service provider can add value to the service to make the customers feel that it is worth paying the extra amount for the service. For example, if hotel A charges ₹ 500 for reserving a room through the internet and other hotels in the same area charge ₹ 300, then hotel A can provide additional facilities like a pick up facility from the airport so that customers do not find the reservation charges too high.

MARKET-ORIENTED PRICING OR DEMAND-BASED PRICING

In demand-based pricing, service providers study the variations in demand with changes in prices. Further, they also observe the changes in demand for each market segment. This type of pricing is mostly related to customers' behaviour in purchasing services. Let us now discuss the various methods of demand-based pricing.

Market Skimming: Market skimming can be used by service providers who offer unique services to the market. These service providers have an opportunity to charge high prices and earn more profit margins until other service providers come up with similar service offerings in the market. For example, when the home-delivery service for pizzas was introduced in the market, the charges for delivery were high until other service providers started offering the same service. Similar was the case with cyber cafes, which initially charged exorbitant prices for their services.

Penetration Pricing: Penetration pricing is used by service providers when new services are introduced in the existing market or when existing services are introduced in new markets. Initially, the prices of these services are kept low so that customers tend to repurchase from the same service provider and thus become loyal overtime. Even if the service provider, increases the prices of these services at a later point of time, customers tend to continue with him and do not switch to other service providers. For example, Reliance India Mobile entered the mobile service market with this pricing strategy as it aimed to penetrate the market and gain a good market share.

Price Discrimination: Price discrimination can be done in two ways. The first type is related to time, i.e., charging different prices at different times. For example, internet service providers like Sify offer their services at low prices during periods of low demand. The second type of price discrimination is related to the type of customers. For example, Airtel offers lower prices to students to encourage them to opt for its cellular services.

Pricing to meet customer expectations: This method involves meeting customer expectations of price with the help of frequent market research activities. This process is helpful when introducing services in a new market or when a unique service is being offered to the customers. This helps the service providers know if the prices set by them meet the customer standards and then they can change the prices accordingly. For example, the IMAX theatre rates for 2D, 3D and DMR (digitally mastered remake) at Hyderabad are ₹ 125, ₹ 150 and ₹ 180 respectively. However, the rates have been revised to ₹ 130, ₹ 175 and ₹ 200 respectively, for the Gurgaon facility, as the customers seem to be willing to pay those prices. The service providers are required to carry on the research activities at least twice a year to keep a close watch on the changes in customer attitudes and expectations.

Discounts and sales: Discounts can be used to attract a segment of customers. For example, BSNL offers a discount of up to 7.5 per cent to its corporate customers, as they bring in large business.

The sale of old stock by companies is not applicable in the case of the service industry as services cannot be inventoried. Therefore, during the off-season, only discounted prices are offered to customers.

Given example “Pizza Chains Slashing Price” is an example of how two fast food pizza chains in India have introduced discounts and slashed prices to attract more number of customers.

Competition-based Pricing

This strategy involves observing the competitors’ pricing strategies to design one’s own pricing structure. Further, knowledge of the costs and pricing strategies of competitors a service provider, provides with additional information on the pricing expectations of the customers. Let us now discuss the various methods of competition-based pricing.

Destroyer pricing: This strategy is used to throw competitors out of business by setting the lowest prices in the market. The prices are so low that competitors find them difficult to match, and they cannot survive in the market if they reduce their prices to the same level. For example, Air Arabia, the Sharjah government owned airline is all set to capture a major chunk of the market with its rock bottom prices if it gets the license to enter the Indian market. Air Arabia charges less than Dh 500 (₹ 6,000) for a return ticket to Colombo from Sharjah, whereas the lowest Air India fare to Thiruvananthapuram (Kerala) which is shorter in distance is Dh 1,700 (₹ 20,000) now. This has prompted Air India to plan a low-price service with no frills. However, service providers should be careful while using this strategy because the company initiating this strategy might be thrown out of business in case the competitors are very strong and can survive the price cuts,

Price matching/going rate pricing: This strategy is employed by service providers who want to play it safe in a mature market. They price their services at around the same level as their competitors. For example, almost all cybercafes offer their services in the same price range today, unless they have some additional features like a coffee bar attached. On the other hand, service providers who offer unique services have the power to set prices and the competitors have no choice but to follow them.

Price bidding/close bid pricing: This strategy is mostly adopted by construction, building, and manufacturing services. It involves sending bids to the company that needs the service and the company selects the bid that will satisfy its requirements best. For example, if the government requires the services of a builder, it gathers bids from different service providers and selects the most suitable one.

INCORPORATING PERCEIVED VALUE INTO SERVICE PRICING

How does a customer assess the value of a service offered by a company in relation to its price? What are the various attributes that create this value? Answers to these questions help a service provider offer services that provide the maximum value to the customers at an affordable price. The perceived value of a service is the perceived benefits less the perceived costs, for the customer. Companies should try to quantify the monetary and non-monetary value to the customers, as it will help them price their product competitively and attractively in the market.

For example,

High-end IT in India
<p>Many business process outsourcing companies (BPO) have cropped up in India in the past few years. India has a competitive advantage with a large English speaking workforce compared to other countries like China and the Philippines. The BPO industry in India has grown rapidly and is now moving up towards its maturity curve.</p> <p>How can these companies survive in this situation? Many companies have realized that it is wise to improve their services by adding more value to them. Earlier they were offering only software coding and maintenance services. Now they are moving up to IT consulting, infrastructure management, product development, systems integration, and package implementation.</p>

The image of the service organization, physical evidence that substantiates the quality of the service, behaviour of the service personnel, and the convenience, quality, and value of the service compared to competitors' services create the value of a particular service in the customers' minds. Further, the process adopted by service companies to communicate their offers can also add value to the customers. For example, some companies introduce certain contests during the promotion of a service and the winners of these contests are given concessions in the prices of the services. The price charged for a service by a company should reflect the value derived by the customers and should be attractive to the customers. However, some service customers require the assistance of service personnel to express their needs better and thus add value to their services. For example, potential insurers take the help of insurance agents to express their needs and invest in a policy that offers more value.

'PRICING STRATEGIES' AS PART OF THE SERVICE MARKETING MIX

There are many ways to price a product. Let's have a look at some of them and try to understand the best policy/strategy in various situations.

Premium Pricing: Use a high price where there is a uniqueness about the product or service. This approach is used where a substantial competitive advantage exists. Such high prices are charged for luxuries such as Cunard Cruises, Savoy Hotel rooms, and Concorde flights.

		Low	Quality	High
P r i c e	L o w	Economy		Penetration
	H i g h	Skimming		Premium
Pricing Strategies Matrix				

Penetration Pricing: The price charged for products and services is set artificially low in order to gain market share. Once this is achieved, the price is increased. This approach was used by France Telecom and Sky TV.

Economy Pricing: This is a no frills low price. The cost of marketing and manufacture are kept at a minimum. Supermarkets often have economy brands for soups, spaghetti, etc.

Price Skimming: Charge a high price because you have a substantial competitive advantage. However, the advantage is not sustainable. The high price tends to attract new competitors into the market, and the price inevitably falls due to increased supply. Manufacturers of digital watches used a skimming approach in the 1970s. Once other manufacturers were tempted into the market and the watches were produced at a lower unit cost, other marketing strategies and pricing approaches are implemented. Premium pricing, penetration pricing, economy pricing, and price skimming are the four main pricing policies/strategies. They form the bases for the exercise. However, there are other important approaches to pricing.

Psychological Pricing: This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis. For example, price point perspective 99 cents not one dollar.

Product-line Pricing: Where there is a range of product or services the pricing reflect the benefits of parts of the range. For example, car washes. Basic wash could be \$2, wash and wax \$4, and the whole package \$6.

Optional Product Pricing: Companies will attempt to increase the amount customer spend once they start to buy. Optional 'extras' increase the overall price of the product or service. For example, airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other.

Captive Product Pricing: Where products have complements, companies will charge a premium price where the consumer is captured. For example, a razor manufacturer will charge a low price and recoup its margin (and more) from the sale of the only design of blades which fit the razor.

Product Bundle Pricing: Here sellers combine several products in the same package. This also serves to move old stock. Videos and CDs are often sold using the bundle approach.

Promotional Pricing: Pricing to promote a product is a very common application. There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free).

Geographical Pricing: Geographical pricing is evident where there are variations in price in different parts of the world. For example, rarity value, or where shipping costs increase price.

Value Pricing: This approach is used where external factors such as recession or increased competition force companies to provide 'value' products and services to retain sales, e.g., value meals at McDonalds.

COMMUNICATION IN SERVICES

Introduction

Promotion, like any other element of the marketing-mix, is very essential for successful marketing of a product/service. Promotion has to be given a little more importance in marketing

services due to their intangible characteristic. Service providers often find it difficult to tangibilise their services in order to appeal to the target customers. In these situations, promotional techniques help a service provider add tangibility to the intangible services, and thus reduce the perceived risk of customers. Some service providers like financial auditors, tax consultants and doctors do not promote their services aggressively due to the rules laid down by the regulatory authorities. For example, chartered accountants, lawyers, doctors, etc., cannot advertise their services on an individual basis. Therefore, they have to rely on word-of-mouth publicity, handouts, press releases, etc., to promote their services.

We should first understand the role of communication within and outside the organization before learning more about the promotion element. An organization is required to effectively communicate with its internal and external customers so as to maintain transparency in business transactions and also to increase the awareness of an organization's products and services offerings in the market. Further, a service provider should analyze the various issues related to business communication.

Service providers should not get so involved in the promotional activity that they ignore the other elements of the marketing-mix. It should be looked at as an element of the marketing-mix and an important one to tackle competitor strategies immediately. Further, with excessive use of sales promotional techniques by a service company, there is the danger that customers might become price sensitive and they would buy the services at the time of promotional offers only.

Importance of Communication and its Types

Business communication plays a very important role in any organization as it helps the organization stay in touch with its internal as well as external customers. In fact, an organization's success in communicating effectively with its internal and external customers determines its success in business. There are many instances where organizations have failed miserably due to bad communication strategies. For example, if an insurance company fails to communicate the benefits of its policy to the customer, why will he be interested in insuring with the company? Similarly, when the management of a consultancy decides to change its business model and fails to communicate it to its employees, can we imagine the resultant chaos and confusion. Who are the internal customers and external customers of a company, and why should a company communicate with them? What are the tools that can be used for internal and external communication by an organization? Let us answer these questions by focusing on internal and external communication separately.

Internal Communication

A company's internal customers include its front-line personnel, its employees in different functions and departments and the management. Internal communication helps a company enhance understanding and cooperation among the employees of a department and between employees of different departments. An open communication channel gives them the feeling that they are a part of the team and this helps the organization retain and motivate them in the long run. It also increases transparency between the management and the employees. What type of information should a company communicate to its employees? A company should communicate with:

- Its employees about the importance of internal and external communication and how to communicate effectively;
- Its employees about the organizational vision and corporate objectives;

- Its employees about the ongoing projects and their contribution to organizational objectives;
- Its management about the progress on these projects;
- Its employees on how to solve problems and resolve issues that arise while working on a project;
- Its employees on methods to be adopted by employees to work more efficiently;
- Its employees through various communication methods like meetings, awards, newsletters, formal and informal discussions to motivate them;

An organization can use oral or written communication, face-to-face or online communication or formal or informal communication to communicate with its internal as well as external customers. The various modes of communication that can be used are explained in Table 2.1.

Table 2.1: Types of Communication

Types of communication	Internal communication	External communication
Oral communication	Intercom (Internal telephone lines)	Telephone, Customer call centres
Written communication	Newsletters, internal memos, notice boards	Company newsletters, company released statements, business magazines
Face-to-face communication	Meetings, presentations, seminars	Seminars, meetings, presentations at the client or company premises.
Online communication	e-mails, internet,	Internet, official websites intranet, official website
Media		Advertising through print, television, and radio.

External Communication

A company's external customers include its suppliers business and individual customers, shareholders, foreign clients (if any) government and various regulatory boards depending on the nature of service business. An effective external communication channel helps a company to communicate with its external customers; on a regular basis. The main aim of external communication is to increase the awareness of a company's wide range of services company performance, and its environmental policies to all the stakeholders. Further, if a company is working in collaboration with another organization then it needs to communicate regularly with the other organization. For example, earlier Wipro and GE have come together to form Wipro-GE Medicals and offer health care services in India. These types of collaborations call for clarity in communication between the two companies on various aspects like the fundamental objectives of the company, financial policies, customer service standards, etc.

A company that communicates effectively with its external customers can reap the fruits of improved relationships with its customers, can create a good image of the company in their minds and give them an idea of the professionalism of the employees in the company. An organization can adopt various types of communication to communicate with its internal and external customers. For this purpose it can use various communication tools, which are diagrammatically represented in Fig. 2.5.

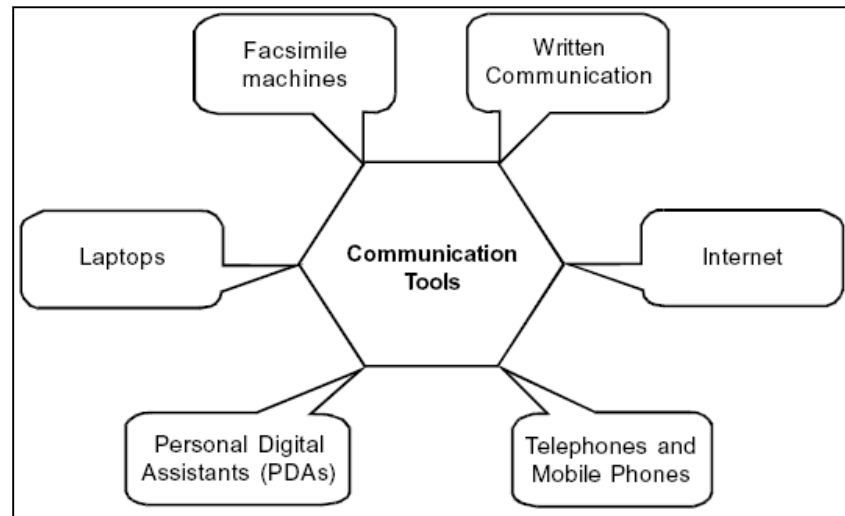


Fig. 2.5: Communication Tools

A company's communication strategies help it project a desired image and position itself in the market. Organizations use communication strategies to bring about awareness of their products and services among their target audience. Further, they try to attract customers to consume their services with various techniques that are discussed later in the chapter. However, sometimes the message is not transmitted properly and is not inferred as intended by the service provider. These situations may arise due to technology, financial constraints, and content or delivery of the message. Let us now discuss how these four factors affect the communication process.

- Technology:** Technology helps an organization to communicate in a fast and efficient manner. At the same time, it can also be a source of problems that crop up in the course of conducting business. For instance, many domestic and foreign banks offer net banking facilities to their customers. If there is some problem with a bank's website or the network, the customers experience inconvenience and their impression of the bank is affected. Besides, if a potential customer logs on to the website and faces problems, he would form a negative impression on the bank and there is a possibility that he would opt for other service providers. Similarly, many companies in the outsourcing business sector offer 24-hour customer care through their call centres. If some problem occurs in the telephone lines or in a company's internal communication channel, customers may be kept waiting or their calls may never be taken. Such instances may prompt a customer to switch to another service provider.
- Budgetary constraints:** Some organizations may not have sufficient funds to install a good communication system in their offices. They might not even have enough employees to maintain a channel for smooth communication flow. Because of inadequate facilities, these organizations may fail to provide the best service to their customers. Therefore, they might tend to lose their existing customers and also fail to attract new ones.
- Content:** In some cases, organizations may fail to communicate effectively due to insufficient or distorted content of the message. For example, say a hotel intends to advertise that a holiday package is available for '3 days and 2 nights for a couple' but releases a message that says, '3 days and 2 nights for a family'. A family might include a person's parents and kids as well and this would give rise to problems.

- **Delivery:** Communication issues in delivery arise due to wrong timing, wrong message, or targeting the wrong audience.
 - Often, telemarketing executives of service providers call up customers during business hours to inform them about their organization's service offerings. Customers get disturbed and develop a negative image about the organization.
 - Sometimes, service providers communicate incomplete or wrong information to their customers. For example, an insurance agent who does not know complete information about a certain policy might fail to communicate effectively with a potential customer. Further, the potential customer would form a bad opinion about the insurance company.
 - In some instances, the organization might end up targeting the wrong audience. For example, a cellular service provider might communicate the benefits of reduced charges on short messaging service (SMS) to the father in a family who rarely uses the service, whereas his young children might be more interested in the service.

DISTRIBUTION (PLACE) IN SERVICES

Introduction

ICICI Prudential Life Insurance has developed a multi-channel distribution strategy to market its insurance products. This distribution strategy includes bancassurance (offering banking and insurance products at one place), direct marketing through individual agents and financial service consultants, and corporate agents. ICICI Prudential Life runs its operations at 23 locations and some of them have many branches. The company has won several awards for its innovative distribution strategies. In the year ended March 31, 2004, the company had issued over 4,30,000 policies, for a total assured sum of over ₹ 8,000 crore and a premium income in excess of ₹ 980 crore. The company has a network of about 30,000 advisors as well as 12 bancassurance tie-ups. Today, the company is the top private life insurer in the country.

This example proves that the distribution strategy of a company plays a key role in determining its success. Place, the 'fourth P' of the marketing-mix, deals with the development of distribution strategies. The main aim of these strategies is to make the products and services available and accessible to customers whenever they want to make a purchase. As part of 'place', company needs to make decisions relating to the channels of distribution like its geographical coverage, location of the service outlets, inventory, and transportation.

Like all the other elements of the marketing-mix, the distribution strategies for services are also different from those for packaged goods due to the special characteristics of services. Packaged goods industries use a number of intermediaries for distribution compared to services. Since services are produced and consumed at the same point and cannot be inventoried, there is no scope for any intermediaries. However, some services like financial institutions use distribution as a means of differentiation and achieve a competitive advantage over others.

Significance of Location

The location of a service firm is an important aspect of service distribution, as it involves decisions regarding the place of operations for service packaging and the place of service delivery to the customers. The importance of the place may vary depending on the extent of interaction between

the customer and the company. For example, for services like restaurants and airlines, the location of the service firm is very important. On the other hand, for services like online booking, home delivery, etc., location is not as important. The interaction between a service company and its existing or potential customers can take place in three possible ways:

- **Customer visits the service provider:** The location of the service firm assumes a lot of importance when the customer visits the service provider. The location of the service provider can convey the tangibility of the service, and thus reduce the risk perceived by the customers in consuming the service. The location of restaurants, health clubs, beauty clinics, banks, etc., conveys the quality, availability, accessibility and reliability of the services to the customer.
- **Service provider visits the customer:** The location of the service provider is not important when the service provider visits the customer. However, the speed of service and its quality are given high importance in this case. Therefore, the service provider needs to stress on the location to facilitate operations that deliver fast and high quality service to customers. For example, banks have introduced the concept of giving loans and opening new accounts at the doorstep of the customer. In these cases, the quality of information provided by the service personnel and the speed at which the transactions take place, gain greater importance. Similarly, Domino's Pizza's home delivery system allows it to invest very little in the location of the outlet. They have simply done up outlets in inexpensive areas.
- **Distant interaction:** Location is least important when the service provider and customers interact from a distance. Examples of these service include internet banking, mobile banking, online reservations, etc. The location of utility service providers like electricity, telecom, etc., is also given less importance.

Channel Decisions

In situations where direct marketing of services is not feasible, service providers use intermediaries to market and sell their services. These intermediaries are known as distribution or marketing channels. Thus, there are three participants in the service delivery process, namely, the service provider, customer and the intermediaries.

Example: Berger king became one of the first QSR chain to launch its products on eBay & Paytm. It opened 38 outlets in one year and planning to open 12 more by the year ending 2015, by investing ₹ 1.75 – 3 cr. Each. The company now want to widen its footprints into corporate offices across India.

Today, many service providers are looking for alternative channels of distribution without relying on direct sales alone. They were concentrating on the traditional distribution channels earlier, but are now looking at innovative methods of taking their service to the customers. “Distributing through Dabbawallahs” in Mumbai given the example of a private insurance company in India that has discovered a novel way of distributing its services. Some service providers continue to sell their services directly to the customer, as in management consulting, and hotel businesses or through agents or brokers as in insurance, travel, real estate, etc. Services are distributed through sellers' and buyers' agents or brokers as in stock broking and portfolio management; or through franchises as in education and fast food, etc. NIIT and Aptech for example, operate through their franchisees across the world. Fig. 2.6 gives a diagrammatic representation of various channels available to the service providers.

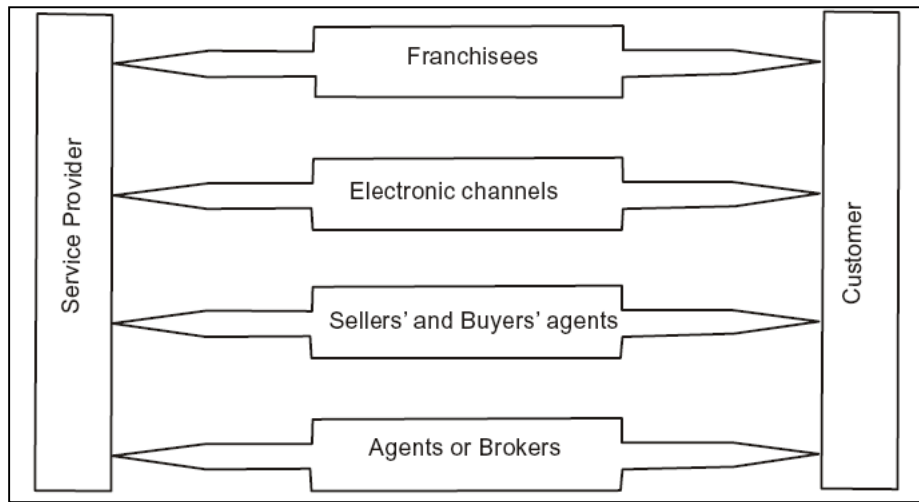


Fig. 2.6: Channel Options for Service Providers

Intermediaries also play a role in co-producing the service. However, they have to maintain the service standards developed by the principal owner. For example, McDonald's franchisees follow the service standards set by the franchiser, i.e., McDonald's. Intermediaries also form a bridge between the company and the customers. A customer's perception of a company depends on the relationship that the intermediaries maintain with him. For example, if a customer is not happy with the service provided at the franchisee of a training institute, he would not only avoid that institute in future, but will also advise friends and colleagues against opting for its services.

Intermediaries benefit the customers by saving them time and offering them the convenience of utilizing the services. For example, many cellular companies like Airtel, Hutch, Idea, etc., offer their services to the customers through agents who sell the prepaid cards, recharge the cards, etc., at different locations. This makes the service easily accessible to the customers and thereby improves business for the company. Given example "Bollywood Finds Global Audience" explains how it is important for filmmakers in India to woo the global audience by building up relationships with global distributors.

Service providers should consider the following factors when making decisions:

- The channels chosen by the service provider should ensure easy accessibility and convenience for the customers to interact. For example, many banks offer the ATM facility to customers, to make it easy for them to avail of some of the basic facilities of the bank.
- These distribution channels should add some value to the customer. For example, in the above example, it is convenient for the customers to make any transactions through an ATM, rather than spending time in visiting the bank branch and waiting in the queue there.
- The channels chosen should not eat away into margins of the service provider, i.e., they should suit the service provider's budget. For example, a service provider should not think of opening franchises or hiring agents when it is not financially feasible for the company.
- The channels chosen should cover all the target markets. For example, some of the banks and financial institutions are looking at micro financing to target a large customer base in the rural parts of the country.

- The channels chosen should be reliable. For example, when a financial services company hires the services of an agent, it should ensure that the individual is reliable and does not dupe the customers in the name of the company.

Direct Distribution

As discussed earlier, direct distribution of service takes place when a service provider directly delivers the service to the customer without any intermediaries in the process. Examples of these services include medical service, beauty care and health care, consultancy, education, entertainment, etc. Due to the perishable, intangible, and variable characteristics of services, most of them are directly distributed to the customer. There are various advantages and disadvantages attached to the direct distribution of services. Some of the advantages are:

- **Control:** A service company enjoys greater control on its operations and services through direct distribution. It can also maintain high quality and greater consistency in its service offerings when compared to a franchise. The service provider can monitor the operations directly and check their compliance with the service standards. Further, the company can have direct control over the recruitment of staff, their motivation and their performance.
- **Healthy customer relationships:** Direct distribution helps in maintaining healthy and strong relationships with customers. It improves clarity in communication between the service personnel and the customers, bridging gaps and removing any scope for misunderstanding. The company can ensure a strong relationship with the customers, thereby enjoying the different benefits of loyal customers, like repeat business and positive word-of-mouth publicity.

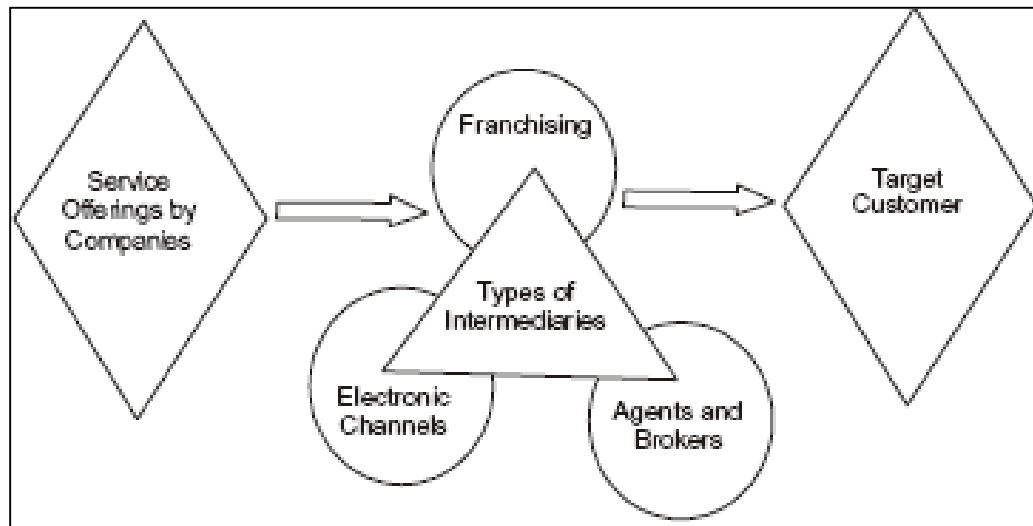


Fig. 2.7: Primary Channels in Service Distribution

- **Flexibility and Confidentiality:** In distribution channels like franchising, the franchisee has to strictly follow the rules laid by the franchiser to maintain the set service standards. This might result in a few dissatisfied customers moving away or shifting to competitors. In direct distribution, the service provider is free to make changes to the service or the service location according to his convenience or the customers' desires. This flexibility in service delivery

helps to customize the service. In addition, direct distribution helps the service providers maintain the confidentiality of their core competencies without the need to share them with other distributors.

Direct distribution is disadvantageous in the following ways:

- **Financial Risk:** Service companies face financial challenges when they desire to expand their business without the support of franchisees or agents. They are required to make huge capital investments and may be forced to compromise on some aspects like promotion or research and development for new services, due to budgetary constraints.
- **Lack of Knowledge:** Companies that aim to expand beyond their existing geographical boundaries lack the knowledge of local customers, their preferences, attitudes, local culture, their purchasing power, etc. Companies that get into partnerships with local companies or franchise their operations have an upper hand over companies that enter foreign markets all by themselves.

Types of Intermediaries for Service Delivery

Some service organizations choose alternative channels of distribution for various reasons like lowered risk and wider reach. They distribute services through intermediaries like franchisees, agents and brokers, and electronic channels. Figure 2.10 gives a diagrammatic representation of the distribution system and the different types of intermediaries. Service companies package the services and distribute them to the customers with the help of these intermediaries. A service organization provides licenses to franchisees to sell its services according to the standards or rules set by the organization. For example, Café Coffee Day has many franchisees located in the Indian metros, and NIIT, which provides computer education, has franchisees across the world. These franchisees have to maintain the customer service and quality standards set by the parent company. Service companies, especially those in the finance business, hire representatives in the form of agents and brokers to sell their services. A particular agent might, however, be free to sell the services of many suppliers. For example, an insurance agent might sell the insurance services of Life Insurance Corporation of India Ltd., (LIC), ICICI Prudential and MetLife. Some companies opt for electronic channels of distribution like the telephone, television, and the internet. Let us discuss these three intermediaries in detail:

Franchising

Franchising is being used widely by service organizations to distribute their services, as more and more businesses are looking at expanding across the borders. A franchiser licenses his brand name, services, business processes, etc., and in return, charges a fee and royalties from the franchisee. Standardized services can be distributed through this channel, but it is not easy to distribute customized services. Duplication of standardized services can take place through promotional activities, guarantees offered, type of branding chosen, and through the delivery processes. This might not be easy while dealing with customized services like medical or legal facilities. Let us now discuss franchising in detail from the points of view of the franchiser and the franchisee.

Agents and Brokers

Agents and brokers are forms of intermediaries who work on behalf of the principal or owner of the services. Further, an agent is a bridge between the customers and the service company and is enabled to make agreements between the customers and the service company. For example, agents of

LIC (Life Insurance Corporation of India Ltd.,) explain the various products offered by the company and make insurance policies between the customers and the company. These agents and brokers are given the legal authority to market the company's services on behalf of the principal. They are paid by the principal in the form of commissions, for their services. Above example insurance Agent Turning Rich shows how insurance agents are earning high commissions by selling the policies successfully and by maintaining successful relationships with the customers. Although many functions performed by the agents and brokers are similar, some minute differences exist between them.

Agents are people or organizations that work for the principal on a continuous basis. Selling agents, facilitating agents, and purchasing agents are the three types of agents. Selling agents have the contractual authority to sell a principal's services, as the principal is either not qualified or lack the resources to do so. Agents of sports-persons and film stars are examples of selling agents who do not have any limited boundaries. Facilitating agents are people who share their expertise in the marketing process. Purchasing agents on the other hand are equipped with knowledge in certain fields and provide valuable information to the clients regarding the best options available in the market. Brokers are responsible for negotiations and smooth contract agreements between buyers and sellers. The party that seeks the assistance of brokers pays them and they are not put to any financial risk. Brokers do not represent the same buyers and sellers on a continuous basis. Examples of brokers include real estate brokers and security brokers.

Example: Founded 2010, Kunal Shah & Sandeep Tandon – Freecharge – offers recharge and payments for telecom services, DTH and Electricity Bills. Snapdeal acquired free-charge which (by that time) has 27 mill registered users making more than 5 transactions per month per user. Snapdeal proposed to invest ₹ 1000 Cr by 2016 for capacity augmentation. Free-charge launched mobile wallet in partnership with Yes Bank on September 2015. Mobile wallet are increasingly becoming a preferred mode for making payments to Cab services and other “app- driven” services like Utility bills and e-commerce purchases.

Electronic Channels

Service companies that adopt electronic channels for distribution do not require direct interaction with customers. Telephone and television have been the original channels of distribution through the electronic media; new additions to this distribution channel include the internet, which has come to play a very powerful role. Technological advances have helped improve the service delivery processes to offer greater convenience to the service providers as well as the customers. Online booking of movie and travel tickets, distance learning, remote health services, videoconferencing, and web games are examples of services that are a direct result of technological improvements. Further, electronic channels of distribution help service providers solve the problems caused due to the inseparability of services. Let us now discuss the benefits of the electronic channels of distribution:

- **Lower costs:** Electronic channels of distribution cost less to the service provider than personal selling. Further, they also provide instant answers to customer queries online. For example, if a customer decides to book flight tickets online, he will reduce the stress on the service provider and get the relevant information and tickets online.
- **Increased customer convenience:** Electronic channels of distribution have increased the convenience of customers. For example, online reservation of movie tickets saves the time of customers and the efforts involved in getting the tickets.

- Increased bargaining power of the customer: The customer can refer to the prices and services offered by different service providers online, compare them and make the purchase decision. This has increased the bargaining power of the customer.
- **Extensive distribution:** Electronic channels of distribution allow a company to contact many customers as well as intermediaries. Further, franchisers find that electronic communication with franchisees motivates the franchisees better, in addition to being cost-effective.
- **Ability to customize services and gain quick feedback:** Electronic channels of distribution enable service companies to offer customized, services to the customers. Further, the service providers can get feedback from customers faster than from other channels. They are also a cost-efficient way of getting feedback.

The disadvantages involved in electronic channel of distribution are as follows:

- **Uncontrolled price competition:** Electronic channels of distribution have enabled the customer to purchase services for the price he/she wants to pay. This has increased price competition among the service providers and the bargaining power of the customer.
- **Customer variability:** Though electronic modes of distribution solve the problems of inconsistency of service personnel, the problem of customer variability persists. Customers involved in co-producing the service become frustrated because of their limited knowledge about using the channel. For example, a customer who is not technically equipped to use videoconferencing can blame the service provider if he is not able to use the facility.
- **Security challenges:** Customers are sometimes hesitant to disclose their credit card numbers to buy the services online as they could face security problem.

Apart from these regular channels, there are also some conventional distribution channels in marketing services, like piggybacking. In this method of distribution, one marketer makes use of another marketer's channels to market his own services. For example, Tata Indicom Internet, an ISP, uses the ATMs of ICICI Bank to distribute its product.

Strategies for Effective Service Delivery Through Intermediaries

An effective service delivery requires an effective management of the channels used for distribution. Often, service companies face the question of how their intermediaries should be treated. It is important for them to decide whether the intermediaries be treated as partners, customers, or additions to their company. Let us discuss the control, empowerment and partnering strategies adopted by service companies to manage the intermediaries effectively.

Control Strategies

Service companies that offer unique services, and enjoy high demand and customer loyalty can use control strategies. The service principal using these strategies believes that intermediaries perform best when they are given standard instructions on the service quality and revenue generation, and are rewarded for their performance. These strategies require the active participation of the service principal. The two important aspects of a control strategy are measurement and review.

Measurement

The service principal should find ways to measure the performance of the intermediaries on a regular basis. Conducting customer surveys provides feedback on the level of service provided by the franchisees. Franchisers may choose to reward the intermediaries based on their performance.

Review

Franchisers can exert control over franchisees through non-renewals, restricted supplier resources, quotas and terminations. Franchisers can also offer price breaks to franchisees for achieving a certain volume of sales quota.

Empowerment Strategies

A service principal adopting empowerment strategies believes that the participative style of intermediary management delivers the best results. These strategies are chosen by service principals who have recently started business. The different activities involved in adopting and implementing the empowerment strategy are discussed below.

Enabling intermediaries to develop customer-oriented service processes

This strategy can be implemented by providing one necessary support to the intermediaries to set and maintain the service standards, as they lack the funds to conduct customer research or impart training to their employees.

Providing required support systems

The service principal should help the intermediaries by offering them the support systems required for efficient performance. These may be standard processes, quality standards, etc., that help in implementing, improving, and measuring services.

Motivating intermediaries to deliver consistent quality service

In this strategy, the service principal aims to provide training or implement other development programmes for service personnel of intermediaries to enhance their skills and knowledge on delivering quality service consistently. This includes rewarding the desired performance.

Adopting cooperative management structure

This strategy aims at adopting a cooperative management structure by reducing the number of management levels at the service outlets and empowering franchisees to develop their own methods of hiring and training employees. This motivates the franchisees and improves their morale. This, in turn, results in increased revenues and profits as happy employees make customers happy.

Partnering Strategies

Partnering strategies are considered the most effective as they improve the relationship between the service principal and the intermediaries. Further, both the service principal and the intermediaries collectively learn new ways to improve the service delivery, and understand the changing tastes of target customers to change the service offering accordingly.

Alignment of goals

This strategy aims at aligning the goals of the service principal and those of the intermediaries. Intermediaries can set their individual targets to deliver quality service to the customers and to achieve their target revenues and profits. The principal does not interfere in the process and steps in only when the intermediary desires.

Participation and cooperation

In this strategy, a service principal consults his intermediaries before introducing any new policies or policy changes. The views and opinions of intermediaries are considered important in decision-making. This strategy makes the intermediaries feel that they are also part of the business. They are motivated and offer innovative ideas for improving the system of service delivery.

A channel of distribution comprises a set of institutions which perform all of the activities utilized to move a product and its title from production to consumption.

Bucklin – Theory of Distribution Channel Structure (1966)

Another element of Neil H. Borden's Marketing-mix is Place. Place is also known as channel, distribution, or intermediary. It is the mechanism through which goods and/or services are moved from the manufacturer/service provider to the user or consumer.



PEOPLE IN SERVICES

Introduction

Like manufacturing organizations, service organizations are also trying to use technology to get their tasks done more effectively and efficiently. Tellers in banks are being replaced by ATMs, call centre operators in service centres are being replaced by computers and many such jobs are being automated. However, service organizations have realized that they cannot completely replace people with machines.

They do need people because machines can act and respond only in the way they are programmed and therefore cannot deal with exceptional situations. On the other hand, people can be trained to deal with difficult customers and exceptional situations. However, it is not very easy to attract and retain good people. People have their own set of expectations from the organization and from their jobs. They are also bogged down by their personal and social responsibilities apart from the responsibilities as an employee towards their organization. At work too, employees might face varied problems as they strive to achieve their personal and organizational goals. In this chapter, we will discuss the different types of service personnel, the problems they face, the types of conflicts that may arise at the workplace and the way they are tackled. Then we will proceed to discuss the strategies used by service organizations to attract and retain employees.

Classification of Service Personnel

Though all service organizations are characterized by an interaction between their service personnel and customers, the level of interaction varies from one organization to another and from one executive to another within the same organization. This level of interaction can be one of the bases for the classification of service organizations as well as service personnel. The classification of organizations based on this criterion is as follows:

Low contact service: In this kind of service, the interaction between the service organization and a customer lasts for a short period. Fast food outlets, beauty clinics, mechanic shops, etc., involve low contact service. Post offices can also be covered under this category if the interaction is for a one-time service like buying stamps or sending a parcel. In this case, the service personnel should have excellent technical skills and good communication and interpersonal skills to impress the customers and generate repeat business.

High contact service: In this kind of service, the interaction between the service organization and the customer lasts for a long time. Educational institutions, airlines and banks involve high contact service. Post offices and hotels can also be covered under this category if the interaction is not a onetime affair or if it is for a long period. In these service organizations, the service personnel need to have excellent communication and interpersonal skills apart from good technical skills to serve customers effectively.

Service personnel can also be classified as follows, depending on the type of service provided and the kind of skills required:

Consumer service employees: They offer services that require less of technical skills and more of task related skills. However, they need to have good interpersonal skills because they need to communicate with customers, identify their needs, assist them in decision-making and solve their problems if needed. Service personnel in retail stores, airlines and hotels are consumer service employees.

Professional service employees: They offer services that require higher-level skills and expertise. Professional service personnel need to have in-depth subject knowledge and strong technical skills coupled with good communication and interpersonal skills. Lawyers, doctors, engineers and consultants come under this category.

Depending on the frequency and length of customer interaction, service personnel can be classified as follows:

Contact personnel: The primary function of this category of personnel is to interact with customers and offer them quality service. They participate actively in marketing, the service to customers. They need to be regularly trained and motivated to serve customers. They should respond quickly to customer needs and try to solve their problems. An example of contact personnel are the customer care executives of a service organization.

Moderate contact personnel: These personnel interact with customers only occasionally. Their primary function is to design and create a tangible or intangible product service to suit customers' requirements. Therefore, they interact with customers only in special cases. For example, a chef in a restaurant does not usually interact with customers. However, when presenting a new dish for special

guests, the chef may personally interact with the guests to explain the preparation, the ingredients and the nutritional value of the dish.

Back office staff: The primary function of these personnel is to perform all those activities that enable the front-line service personnel to deliver quality service to customers. However, they might interact with customers under some special circumstances. For example, a technician who repairs the air-conditioning systems at a company showroom does not usually interact with the customers. However, if a customer finds it difficult to explain the problem in technical terms to the front-office personnel, the technician may be called to talk to him/her customer and understand the problem better.

Support staff: These personnel perform support functions and do not come into contact with customers at all. For example, customers do not interact with an accountant or an HR executive in a hotel.

Management: The management of an organization rarely interacts with customers directly. Interaction happens only in exclusive situations when the management wants to get customer feedback or when the customer is a high net worth, important person like a corporate customer. For example, the chairman of an airline might interact with customers on flight to gather feedback about its services. Otherwise, he might meet a corporate customer who contributes a good percentage of revenues to the airline and whose relationship is critical for its business.

Problems Faced by Service Personnel

Employees working in service organizations face some unique problems at work. In manufacturing organizations, employees work continuously in a predetermined and systematic way at a uniform pace, which results in a steady output everyday. If the product of a manufacturing process turns out to be defective, the defective parts or sums can be rectified or replaced. However, the situation is quite different in service organizations. The pace at which the service personnel need to work depends on the customer traffic on that particular day. Similarly, the unique demands of customers determine the type of service to be delivered by the personnel. In some special cases, some error might creep into the service offering or the delivery process. The service personnel need to deal with the situation tactfully, appeasing the customers and rectifying the mistake immediately. All these factors make the job of the service personnel unique and challenging. Some of the common problems faced by service personnel discussed here:

Stress and burnout: Service personnel have to constantly interact with customers. This pressure exposes them to stress and burnout. For example, the receptionist in a hotel has to continuously receive calls, answer customer queries, provide information on various aspects like the local visiting spots, note the messages of callers for the guests and communicate them, etc. Similarly, in a call centre, a customer service representative needs to attend to customer calls continuously throughout the shift, and this can be quite boring and stressful at times. Demanding and irate customers only add to the problems of these representatives. Front-line service personnel constantly interact with people who behave in different ways. Some can be very polite and patient, but some can get irritated easily and start shouting at the service personnel. Yet the personnel have to maintain their patience and deal with them in a courteous manner. They are forced to disguise their true emotions while they are at work. Service personnel, therefore, get emotionally drained and experience stress and burnout.

No well defined job roles and possibilities: The job of service personnel is not and should not be defined strictly. Their roles and responsibilities are roughly outlined and not specified precisely,

because they cannot stop serving the customer saying that it is beyond their purview. For example, if a passenger in a flight falls sick during the course of the journey, it is the responsibility of the cabin crew to take care of him/her. An air-hostess cannot say that her responsibility ends with serving them food and beverages and that taking care of the sick is not defined in her job responsibilities. Such situations put an additional burden on service personnel.

No defined working hours, breaks for relaxation: Service personnel who go to the field, like sales representatives and technicians may sometimes need to spend more than ten hours at work, depending on the client's needs. They might not be able to take breaks for rest or relaxation when they want to. For example, a client who fixes an appointment at 11.30 a.m. may meet the sales representative only at 12.30 p.m. The discussion may go on for a couple of hours and the sales representative may be forced to miss his lunch. In fact, he may also fail to meet the next client at the appointed time because of the delay caused by the first client. The other client may express his displeasure at being kept waiting. However, the sales representative has to behave professionally and apologize for the delay even though the mistake is not actually his. He may be completely deprived of time for relaxation on such busy days.

It is for unique reasons like this that the job of service personnel is termed difficult. The job can be quite interesting actually, as it involves new customers, new demands and new challenges. However, when the pressure mounts from customers and the service personnel start experiencing stress, the job becomes taxing.

People Strategies

The basic human resource functions in any organization are recruiting, motivating, training and retaining people. In service organizations, these functions gain greater prominence because of the nature of work of employees, the stress they experience due to their obligation to deliver service that meets customer demands, and the constant pressure from the management to deliver error-free service.

Attracting the Best Talent

The core competence of a service organization lies predominantly in the skills of its service personnel. Even if a company has the best technology, infrastructure, operational processes and innovative products, it will not succeed if it has mediocre service personnel. Therefore, service organizations need to attract and retain the best talent.

The first step in attracting the best talent is to advertise in various media. The HR management should choose newspapers, magazines and websites or other modes carefully. For example, if the job demands specialized skills, it should be posted in appropriate magazines and websites, which are of interest to those professionals. For example, the advertisement for the post of a technical assistant in an IT firm should be advertised in an IT magazine like Data-quest. Similarly, a firm will get more applications for an interior designer's position, by posting the job on a website pertaining to interior designing. In addition, an organization should avoid blind advertisements because the prospective candidates would want to know the organization. Organizations that give blind ads may be regarded as small and under-performing organizations by some aspirants. Other sources of recruitment could be employment agencies, headhunters and educational institutions. (Refer to above example for Satyam's campus recruitment procedure). Employee referrals are also an important source of prospective employees.

Organizations conduct different tests and interviews to select the right candidates from the group of applicants. Most service personnel's jobs need good communication and interpersonal skills if they need to interact with customers. Therefore, the applicants are tested for these skills too apart from their technical skills. The HR departments of different organizations include a whole lot of exercises in the selection procedure like a written test, a group discussion or an extempore presentation and an interview, or a series of interviews.

Motivating

Service organizations can motivate employees by rewarding them suitably, empowering them, enriching jobs to enhance employee satisfaction and improving their quality of work-life.

Service organizations should recognize the contributions and accomplishments of service personnel who strive to offer quality service to customers. The rewards can be in the form of monetary or non-monetary benefits. HSBC, for example, rewards employees who make extra efforts not just to satisfy customers, but please them. The employees receive a certificate of excellence and also a cash prize. Each year, the list of employees who went that extra mile to make their customers happy, is displayed at various locations in the workplace.

Service organizations need to empower employees so that they can serve the customers better. Many organizations allow their customer service representatives to take decisions related to compensating the customer for service failure, speeding up the service process in special situations, etc. For example, FedEx allowed its service personnel to get customs clearance for a special package on a priority basis to ensure that a father's wedding gift to his daughter was delivered on time. Empowerment makes employees feel valued and respected by their organization and motivates them to perform effectively. Most IT service organizations offer Employee Stock Options (ESOPs) to their employees. They consider ESOPs a form of empowerment because the owner has a stake in the company and, therefore, has a say in running the business.

Compensation also plays a very important role in motivating service personnel. A part of the salary can be linked to the performance of employees. This is the concept of variable pay. It encourages employees to strive to increase the variable proportion of their salary by improving their performance. In addition, this will help to clearly distinguish between performing and non-performing employees, and act as a motivational force for talented employees.

Organizations can also use performance incentives to enhance employee performance. In this system, a high performing employee is given monetary or non-monetary incentives like public recognition/ felicitation, certificate of excellence signed by the top management, holiday packages, free membership cards, increments in salary, etc.

Training

Customers interact with the front-office service personnel before anyone else in the organization. Therefore, these service personnel are the representative faces of the organization. If they fail to deliver the desirable standard of service and do not satisfy the customer at this stage, the customer might decide to switch over to competitors in anticipation of better service. Therefore, organizations should take special care in training their service personnel to deliver the service and ensure customer satisfaction. Training enables organizations to impart the desired skills and abilities to new employees and prepare them for the job. Organizations also conduct training and development programmes for

existing employees to up date their technical skills and improve their interpersonal skills. These programmes can help employees take up greater responsibilities and reach their career objectives. Employees, therefore, believe that the organisation takes care of them and their career needs (Refer to example on Infosys an Employee Training).

In most service organizations, service cannot be delivered effectively to the final customer without the teamwork of employees. Teamwork needs a high level of cooperation, coordination and synchronization among all the members of the team, including the leader. To be an effective team-member, one needs to improve one's communication and interpersonal skills. Therefore, organizations should adequately train their employees to improve their skills and offer excellent customer service.

For example,

Infosys and Employee Training
<p>Infosys has a special education and research group which is entrusted with the responsibility of education and training of employees. The group conducts intensive training ranging from eight to twelve weeks to software engineers recruited from colleges. The training programme involves teaching general concepts as well as job specific skills. Apart from this every year, employees undergo training for two weeks. Interested employees can also take training in general management skills apart from technical skills.</p> <p>The project leaders too are allowed to take some time off to conduct training programmes and workshops for employees. They demonstrate the best practices and new methods to employees who can adopt them and improve the quality of work.</p> <p>The education and research group is staffed with masters and doctorates in computer science and management. The staff members work on various research projects to identify new and practicable ideas. After approval by the concerned authorities they are included in training programmes. Infosys spends about 5% of its revenues on employee training and education. The major objectives of the training programmes conducted by Infosys are to up date software professionals with the latest technical skills, to impart managerial skills to them to handle complex projects, to educate them about new methodologies and tools in software development, and to promote among them commitment to deliver quality product to customers.</p>

Retaining

Management in a service organization should remember that its service personnel will treat the customers much the same way as the management treats them. Therefore, if the management desires to enjoy a loyal customer base, it should first ensure that it has a dedicated employee base. It should treat its employees with concern and empathy. When the management satisfies the needs of employees and addresses their concerns, they, in turn, will strive to satisfy their customers.

When employees are treated well and valued by the organization, they will not be keen on leaving it. The turnover rates among satisfied and happy employees are much lower than among dissatisfied employees. The management should communicate the vision and objectives of the organization clearly to employees and value them as stakeholders. When employees identify themselves with the company and find that they also can contribute to its growth, they will be committed and loyal to the organization.

One of the best ways of retaining valuable human assets in the organization is by recognizing and rewarding performance. Employee performance should be measured periodically and the feedback given to them to enable them know their own strengths and weaknesses. They may also be guided to

take the necessary steps to build on their strengths and overcome their weaknesses. Employees who have a successful career with an organization become role models for other employees of the organization and encourage them to stay with the organization to achieve similar success.

People are the most important element of any service or experience. Services tend to be produced and consumed at the same moment, and aspects of the customer experience are altered to meet the 'individual needs' of the person consuming it. Most of us can think of a situation where the personal service offered by individuals has made or tainted a tour, vacation or restaurant meal. Remember, people buy from people that they like, so the attitude, skills and appearance of all staff need to be first class. Here are some ways in which people add value to an experience, as part of the marketing-mix – training, personal selling and customer service.

Personal selling: There are different kinds of salesperson. There is the product delivery salesperson. His or her main task is to deliver the product, and selling is of less importance, e.g., fast food, or mail. The second type is the order taker, and these may be either 'internal' or 'external'. The internal salesperson would take an order by telephone, e-mail or over a counter. The external salesperson would be working in the field. In both cases little selling is done. The next sort of salesperson is the missionary.



Here, as with those missionaries that promote faith, the salesperson builds goodwill with customers with the longer-term aim of generating orders. Again, actually closing the sale is not of great importance at this early stage. The fourth type is the technical salesperson, e.g., a technical sales engineer. Their in depth knowledge supports them as they advise customers on the best purchase for their needs. Finally, there are creative sellers. Creative sellers work to persuade buyers to give them an order. This is tough selling, and tends to offer the biggest incentives. The skill is identifying the needs of a customer and persuading them that they need to satisfy their previously unidentified need by giving an order.

Customer service: Many products, services and experiences are supported by customer services teams. Customer services provided expertise, (e.g., on the selection of financial services), technical support, (e.g., offering advice on IT and software) and coordinate the customer interface, (e.g., controlling service engineers, or communicating with a salesman). The disposition and attitude of such people is vitally important to a company. The way in which a complaint is handled can mean the difference between retaining or losing a customer, or improving or ruining a company's reputation. Today, customer service can be face-to-face, over the telephone or using the internet. People tend to

buy from people that they like, and so effective customer service is vital. Customer services can add value by offering customers technical support and expertise and advice.

PHYSICAL EVIDENCE SERVICES

Introduction

Services are intangible by nature. However, we rarely come across a service organisation that does not offer any tangibles to its customers. We cannot imagine a bank without a single chair to sit down on, a coffee shop with dowdy interiors or a star hotel without well-dressed service personnel. It is but natural for people to judge the quality of service at a service provider based on the look of the office. Well-furnished lawyer's rooms, in a snazzy building, located at the city centre suggest that the lawyer is successful, efficient and offers quality service. A new client, in the absence of the lawyer having any reputation to go by, would prefer the services of this lawyer to one who has a dingy office in an out of the way place.

These illustrations clearly establish the importance of tangibles or physical evidence in the services sector. In this chapter, we will discuss the elements of physical evidence and their significance for service providers.

Elements of Physical Evidence

Services are low in search qualities, that is, they cannot be tested like products, for their features or characteristics before using them. They are high in experience qualities, i.e., the quality of a service can be judged after it is utilized. For example, it is only after a beautician cuts and shapes a customer's hair that she knows whether the hair has been styled to her satisfaction. Some services are also high in credence qualities, i.e., the quality cannot be judged even after experiencing the service. For example, an organization might approach a consultant for implementing an ERP (Enterprise Resource Planning) system. However, even after implementation, it will be difficult for the organization to judge if the system is the most suitable for its needs.

Owing to the above difficulties in judging service quality in the service sector, customers look for cues about the service provider's capabilities as soon as they enter the premises of the service centre. In addition, they take hints from things that are visible to the eye — physical evidence. Some of the major elements of physical evidence are:

- Physical environment
- Modes and content of communication
- Price of the service
- Appearance and conduct of service personnel,
- Tangible elements accompanying service
- Brand

Let us discuss these elements:

Physical Environment

The physical environment plays a very important role in customer satisfaction because it is perhaps the first tangible element that the customer comes into contact with, when he or she

approaches a service provider. Research studies have shown that the overall service experience of a customer is determined not only by functional attributes but also by physical surroundings in the service location. Physical surroundings influence a customer's decision to revisit the service outlet, to a considerable extent. Refer to example "Physical evidence at Crossword" to examine how the well-known bookstore, Crossword, enhances customer experience by using physical features. First, let us define physical environment. Usually, the following aspects will be included:

- Layout
- Atmosphere
- Aesthetics

For example,

"Physical Evidence at Crossword"
<p>Crossword is one of the most well-known retail bookstores in the country. It has around 40,000 titles at any given point of time. Its monthly newsletter is mailed to over 17,000 customers. Crossword organizes customer experience – enhancing promotions and interactive sessions with authors like Arundhati Roy. Let us see how the store offers "Physical evidence" to its customers.</p> <p>The store conducts activities, like "Pictionary" contests and an annual fair with Santa Claus, aimed at making the place reader-friendly. One can grab a coffee, browse through books and music, all in an airconditioned environment, with soothing music playing in the background. The store does not believe in aggressive marketing, but by offering promotions targeted at loyal customers, creating more value for the customer's time, increasing significantly the store's offerings, providing areas to sit and browse, little baskets and trolleys to hold books they provide value-added services.</p> <p>For the store, customer preferences and comfort are the first priority. A lot depends on details like how books are placed to suit customer the needs. This reduces the brush aspect significantly. It irritates customers when spaces are crowded and someone constantly brushes against them. Another interesting aspect in 'adjacencies'. For instance, travel books are placed next to management books, as many businesspersons are frequent travellers.</p> <p>At Crossword, the marketing team has a clear programme – coming up with a certain number of events at every store every year. Bringing up something new constantly also encourages customers to frequent the store more and even take part in activities. Children and children's books are an important part of the store make-up. In fact, new management recruits per force have to conduct a survey or begin their career at Crossword by doing studies or promotions. They watch and interpret customer needs, studying demographic and other data collected from members of the Book Rewards Programme. This helps them serve customers better. This case study helps us understand how Crossword uses physical evidence to enhance the service experience of its customers.</p>

Layout

Layout refers to the design of the service outlet. A services outlet should be spacious and provide comfortable seats in case customers need to wait awhile to be attended on. Reception areas in most service locations have sofa sets and chairs to accommodate waiting customers. Seating arrangement should be convenient, so that a person can come out of his seat or go to it without disturbing others. Service providers should ensure that their outlet is not overcrowded, because this is one thing that customers dislike. Before building an outlet, the service provider should estimate the traffic and accordingly lease or construct the space. If a service outlet offers multiple services, there should be signboards pointing the way to different service counters. For example, a financial services company

may have an investment adviser on the first floor, bonds section on the second floor and loans on the third. At the entrance, the company should put up a board indicating the services available on different floors. For staff, their designation should be clearly stated on a nameplate kept in front of his or her desk, or mark it out in the form of an identity card worn on the person. This will make it easy for a customer to contact the employee he is seeking.

In outlets that encourage self-service by customers, the service provider has to have a more spatial layout. The way machinery and furnishings are arranged, the level at which they are arranged (a person of average height should be able to use them comfortably) and the ease with which they can be used – all contribute to ‘customer satisfaction’. The functionality of the system is equally important. For example, an ATM machine should accept the customer’s card and give the account details or the amount of cash, at the first attempt. If the machine fails frequently, despite the best layout, it would lead to customer dissatisfaction and irritation.

Atmosphere

Research studies have shown that purchasing decisions by customers are influenced by various elements of atmosphere at the service outlet like light, sound, smell and touch. Service outlets should provide a good lighting and ventilating system, play pleasant background music that appeals to target customers and ensure that the place smells fresh and nice. Apart from the seating arrangement, there should be facilities like safe drinking water and washrooms. The lighting should be bright, especially in service outlets such as retail stores, where customers would like to get a good look at the items before taking a purchase decision. In contrast, in a hotel, customers prefer the lighting to be a little dim and not too harsh on the eyes. Visuals can also influence the customer’s purchase decisions. For example, a child care centre with bright coloured walls and pictures of cartoon characters would attract and entertain kids.

In hotels or retail stores, light music played in the background relaxes the customers and encourages them to spend more time and therefore more money, at the store. However, music that is too loud might drive people out of the outlet. However, in discotheques, music is played at high pitch because they have a different set of customers and their purpose of visit is entertainment with music and dance.

Service outlets should also maintain the right kind of ambiance where fragrance is concerned. Bakeries and restaurants can attract people by the natural aroma of their products. Supermarkets, textile showrooms or bookstores have to make an effort in this direction by spraying light perfumes, to maintain a fresh fragrance. They should not use strong perfumes because many people dislike strong smells and some people are allergic to them too. In service outlets like beauty parlours or health spas where customers have to wait for sometime, cushioned seats, wall paintings and informative magazines should be kept in the waiting room. The right temperature should be maintained so that the customer does not feel uncomfortable.

Aesthetics

A customer’s decision to revisit a service outlet largely depends on its ambiance. For example, some palaces in India, which have been converted into hotels, appeal to customers who delight in aesthetics. The quality of the flooring, the carpets, the material used in the furniture, the curtains, the designs on the ceiling, the paintings, the artifacts displayed, the glittering chandeliers, all these contribute to the experience. This is in addition to more basic aspects like employee uniform or

smoothly finished walls. In hotels, the quality of the table linen and table ware also form part of aesthetics. Customers, who visit a service outlet for the first time, look out for these aesthetic aspects and form an opinion of the quality of service provided by the service personnel. To reiterate, service providers need to take care of aesthetics in their service outlets to impress first time customers as well as encourage customers to visit their outlet again (Refer to example “Hotel and Aesthetics”).

Communication

Let us move to the next aspect, communication. In big shopping malls and multiplexes, customers need to be guided to locate the items they want to purchase. Either an employee should be available at the entrance to provide the guidance, or signboards should be placed so that customers can help themselves.

These boards should be located inside the service outlet as well as outside. At the entrance or outside the mall, customers should be directed to the parking space. Customers do not like to waste their time searching for a parking lot or asking people for help. If that is the case, they may just move on to another familiar store. Valet parking is a good value addition.

Once the customer steps into the service outlet, signboards indicating the way to different sections should be present wherever necessary. For example, if a textile showroom has different floors for different types of garments (silk, formal wear, casuals, men, women, kids, etc.), the appropriate signboard will help customers in locating where they want to go. Some service outlets also communicate the price they charge for each service clearly. This enables the customers to choose the type of service they want to go for. For example, a beauty parlour may have a chart in its reception area, which displays the price charged for each service (waxing, facial, massage, etc.). Service providers also communicate with customers through various media using slogans, logos and commercials. They seek to make their services tangible through effective communication. For example, educational institutions advertise their spacious classrooms and campus, the highly qualified faculty, performance of past students, guaranteed placement, etc.

Price

The price charged for service also gives a cue to customers about the quality of service offered by the provider. Premium prices are generally associated with superior quality service and low prices with average or low quality service. However, there is a limit to the high price a provider can charge customers. If it is so high that it cannot be justified through the quality of service, the customer will feel exploited. Customers would lose trust in the service provider and switch to a competitor, who may offer the same quality of service at a more reasonable price.

At the same time, if a service provider charges too low a price for his services, with the aim of cutting competition out, customers may perceive this to be an indication of low quality service. Quality conscious customers may turn away even if the service provider is actually offering the quality they desire. Therefore, service providers should be very careful in determining the cost of their services. They can conduct a market survey and gauge the average quality of service offered and the price charged for it in the market. Depending on these details and the demand and supply position in the market, they can design their service and price it to attract the target customers.

Service Personnel

The appearance and behaviour of service personnel makes a crucial contribution to the customers' perception of service quality. Service providers should have a proper dress code for employees. They should ensure that their employees are dressed in clean and attractive uniforms. Employees should not be unkempt. They should be clean-shaven, smart and smell good. For example, Jet Airways precisely defines the dress code, hair level/style and jewellery for its flight attendants and stewards. Star hotels like Taj and Oberoi also have a well-defined dress code for service personnel.

Customer-oriented service, the helpful nature and obliging behaviour of service personnel also adds tangibility to the service experience of the customers. For example, say a customer is in doubt as to what he should gift his young daughter on her birthday. If the sales representative helps him select a gift that his daughter likes very much, the customer's perception of the quality of the service offered by the store will go up. He will definitely remember the store the next time he wants to buy something. Some service personnel have excellent knowledge of the services offered by their organization. They also have good general awareness and can converse ably with customers. Customers who get into friendly conversations with such service personnel enjoy their company and will visit the service outlet frequently. For example, if an instructor in a gym has a good knowledge of music and the latest fashion trends, he can chat with his young customers and they will like it.

Tangible Products Accompanying Service

Some service providers offer tangible products with the service as part of the service offering. For example, hotels provide free chocolates and bouquets in the rooms. This practice is being adopted by hospitals too nowadays to give the patient a feel good experience. Similarly, educational institutes like ICFAI provide text books and book of readings to students. When quality service is accompanied with tangibles, it enhances the customer's overall service experience. Offering tangibles contributes to strengthening the bond between the customer and the service provider, enhances customer relationships and encourages customers to patronize their service providers repeatedly.

While we talked of optional tangibles above, sometimes tangibles are an essential part of service. For example, when a person buys a car insurance policy, he needs to be given the document specifying the policy number, the policyholder's name and details of the vehicle. If the person wants to claim insurance at any point of time, he needs to produce the document for the insurance company to honour his claim. Similarly, when a customer deposits his money in a fixed deposit scheme, the bank gives him a certificate specifying his name, amount deposited, date of maturity and maturity amount. The certificate will assure the customer that his money is safe in the bank and that he will get it in multiples on maturity. Nowadays, technology is replacing paper with electronic certificates, which eliminates the risk of losing documents.

Brand/Corporate Identity

The brand adds tangibility to pure service. For instance, a person is more confident about handing over car for repair to a company-owned service centre (like Maruti, Hyundai or Indica) than to a mechanic working by himself. The mechanic may be fully capable of servicing the car well but the brand value, which he lacks, makes the customer prefer a car company's services. Corporate organizations set specific standards, offer consistent quality of service and spend a considerable amount of money on building a brand and creating awareness among the people about it. Therefore, people can recall the brand and its associated benefits. As service is something that they cannot judge

before using it, they look for an assurance of quality service. A brand offers them just that. Let us look at another example. When a corporate manager wants to conduct a meeting with his executives outside the organization, he looks for a good branded hotel that can provide the space and the amenities for the meeting. For example, the Taj, Mumbai is one of the best business hotels serving business travellers in India.

Types of Physical Evidence

We now proceed to the next category – types of physical evidence. The physical evidence provided by service providers can be divided into two categories – essential evidence and peripheral evidence. Essential evidence, as the name suggests, is an integral part of the service, without which the service cannot be delivered. Peripheral evidence, on the other hand, is offered as a gift to the customer. Let us discuss this in detail now.

Essential Evidence

The physical elements that are an integral part of the service offer but are not passed on to the customer constitute essential evidence. In other words, without these elements, the service cannot be delivered. For example, when a person visits a health club, the instructor asks him or her to do different exercises on different equipment, according to requirements. However, the customer steps out of the gym without any tangible element in hand.

In some service organizations, elements of essential evidence are handed over to customers temporarily. For example, in a library, books are issued to members for a set period. Similarly, a car rental agency hands over the car to a customer for a few hours or days according to the agreement.

Peripheral Evidence

The tangibles offered by service providers to customers, to confirm the delivery of service or as a simple gift, constitute peripheral evidence. For example, if a person eats at a restaurant, he receives a bill specifying the amount to be paid. The bill just confirms the service delivery and is not part of the service offering. A rose offered to a lady by the service personnel, after dinner in a restaurant, is also peripheral evidence. The tickets provided at a movie theatre or an amusement park, that enable the customer to gain entry into the complex, also constitute peripheral evidence.

Significance of Physical Evidence

Physical evidence has great significance in marketing services, owing to their essential intangibility. By providing physical evidence to customers and adding tangibility to their services, service providers can derive many benefits. Given example explains how Kerala used its techno-park to attract IT companies to the state.

For example,

“How Kerala is Attracting IT Companies”
Kerala, to compete with its neighbouring states, Karnataka, Andhra Pradesh and Tamilnadu, in attracting IT companies to set-up their bases in the state, built a technopark in 2002 in the state capital, Thiruvananthapuram. This is the largest software park in India. It is hoped that the magnificent building will attract some big IT players to set up their offices in the state. The magnificent 4,80,000 sq. ft., 6-floor, centrally air-conditioned building, named “Bhavani” is specifically designed to meet global IT and ITes industry standards. Inaugurating the building, Mr. Pramod Mahajan, (late), the then Minister of

Information and Technology, said “Kerala is definitely in the right direction to become a leading player in IT.”

Bhavani’s 55,000 sq. ft. x 6 floors of ‘column-free’ office space houses 130 modules of ideal industrial space and 22 IT modules on each floor, planned around a large landscaped atrium. In fact, multiple level redundancies in the power infrastructure support both the campus as well as each individual building. Bhavani has an independent 100% generator back-up. The concept of Bhavani is based on the ‘maximisation of factors’ to meet the growing demand of IT companies such as in-built ability to expand efficiently and in modules and incorporate facilities that provide maximum light and ventilation.

The Chief Minister of Kerala, Mr. A K Antony said “Technopark has been spearheading the IT revolution in Kerala and is a symbol of the high standards that we strive to attain. The Bhavani building truly represents the world- class positioning that Kerala shall adopt going forward.”

This explains the importance of right infrastructure and facilitating in attracting customers. Kerala and India have made such a huge investment to attract global players of IT industry to avail the services of the technopark in providing services to their respective clients.

Some benefits of offering physical evidence are discussed below:

- Increased productivity
- Creating good impressions
- Increased credibility
- ● Differentiation from competitors
- Service quality management
- Re-positioning service

Increased productivity: By designing the service layout properly, that is, by placing the equipment/machinery in the right places and providing a comfortable seating arrangement, organizations can improve productivity. For example, a fast food outlet that does not expect (or want) customers to stay long will provide chairs that appeal to the eye, but are not very comfortable. Customers have their food and move out quickly, making way for new customers. On the contrary, big hotels, which want to encourage people to have an elaborate meal, provide cushioned chairs for comfort. Therefore, people stay longer, spend more and provide more business to the service provider.

The right kind of environment, temperature and ergonomic furniture also improve employee productivity. For example, an employee in an IT firm has to spend long hours in a chair in front of a computer. If the environment is not conducive in terms of the seating, ventilation or lighting, the uncomfortable and unhappy employee cannot concentrate on work and is likely to make errors. Comfort makes for better performance.

Creating good impressions: By using bright lighting, pleasant music and appealing furniture and decor, a service provider can impress first time customers. For example, when a person visits a doctor’s clinic for the first time, he will notice the brightness of the room, its cleanliness, the comfortable chairs, and the promptness of the reception personnel, the quick service and sophistication of the equipment. If the first impression is positive, his perception of the quality of service offered by the provider will be good and he is more likely to visit the clinic again. Of course, the quality of treatment provided by the doctor is the most important aspect.

Increased credibility: Physical evidence also increases the credibility of service providers. For example, continuing the example of a doctor, if professional certificates, fellowships and certificates

of appreciation are displayed in the waiting room, the credibility will go up. The customer will be assured that he is in safe hands. Similarly, a written guarantee given by the service provider will also increase credibility. For example, if a courier company specifies on the receipt issued to the customer on paying the service charge that it will give the money back if his package is not delivered within 24 hours, the customer will feel assured of the service provider's efficiency.

Differentiation from competitors: Physical evidence can also help a service provider differentiate his service from others. For example, if the service personnel at Retail Store A are friendlier, more helpful and knowledgeable than those at Retail Store B, customers will prefer to visit the former than the latter. Price can also be used as a standard for differentiation. For example, in the US, Southwest Airlines is able to attract huge customer traffic by offering quality service at low prices. Similarly, Deccan Airways, which operates in South India, also offers a no-frills service at low prices and attracts customers from competitors on this route.

Service quality management: By taking care of minutiae like cleanliness of the table linen, cutlery, etc., in a hotel, the service provider can send a message to the customer that he cares for quality service. Say a customer drops some soup on the table and the service personnel immediately come to replace the linen, without waiting for the customer to ask, this suggests a high level of quality consciousness. Customers will realize that a service provider, who gives such importance to quality, will certainly deliver good quality core service. Their trust in the service provider will be strengthened further.

Re-positioning of service: By making changes in the service outlet's physical environment or other tangibles, service providers can re-position themselves. This can be on a platform that is totally different from the earlier one. For example, a hotel, which offered economical packages for middle-class customers, might want to re-position itself for business class customers. It can do so by restructuring the hotel, constructing a banquet hall for meetings, improving the interior décor of rooms and changing the hotel's external appearance. The hotel's location, amenities and services should then be communicated through the media to corporate customers. In addition, the hotel can hire marketing executives to present the new image impressively to the target customers.

PROCESS SERVICES

Introduction

Process is an element of the extended marketing-mix of services marketing. A process outlines the procedures and methods to be followed to produce and deliver a service. It also determines the extent of customer involvement and participation required in service creation and delivery. Therefore, process explains a series of activities, their sequence and the role to be played by the service provider, the intermediaries and the customer. It plays an important role in determining the quality of service design, production and delivery.

It is not possible to differentiate production from delivery in services as they are inseparable in nature. Therefore, process includes all the activities related to production as well as delivery of the service. Further, processes need complete dedication and commitment of the service personnel in order to be completed successfully.

Companies, not only in the manufacturing sector, but in the service sector as well, gain competitive advantage over other players with improved processes. A well-designed and well-

executed process increases operational efficiency, offers convenience to customers, reduces the cost of offering services, and improves the efficiency of service delivery. Effectively, it helps in achieving the goal of customer satisfaction.

In this chapter, we shall discuss the characteristics of service process design and implementation, the types of processes and the steps involved in planning a service process. Further, we shall discuss service blueprinting, factors influencing process efficiency, and service positioning through structural change. Finally, we will discuss the various methods to balance the marketing and operational functions in a service organisation.

Example: Ola tied up with map my India to use digital maps and location data to build new solutions. It will improve the estimated time it takes for its drivers to reach prospective riders and build location-based solutions.

Characteristics of Service Process Design and Implementation

- **Divergence:** Often, service providers adapt their services to match customer needs, as a single service might not cater to all. The degree, to which a service provider can vary services, deviating from the standard service, is known as divergence. Divergence provides an opportunity for the service provider to customize services for his customers, and serve them better. For example, many tourism companies customize their holiday packages according to customer needs.
- **Complexity:** The process of creating and delivering a service involves many activities. While some activities might be quite simple, others can be quite complex. The complexity of a process should take into consideration the contribution of the different activities to service quality. The activities that contribute to service quality in an interaction between a banker and a customer may include the friendliness shown by the banker, his knowledge about the products, the speed at which the service is offered to the customer, etc. At the same time, the number of activities in the production and delivery of a service increase with the increase in divergence, i.e., complexity increases with divergence.
- **Service location:** The nature of the service being offered largely determines the service location. Services can be delivered at the service provider's location, at the customer's location, at a neutral location or virtually, depending on their nature. For example, customers can either visit a hotel to have dinner or they can order home delivery. In the former case, the service location is the hotel, and in the latter, the customer's home is the service location. A tourist operator offers his services at the tourist spot, which is a neutral location. A banker offers his services virtually when he provides internet-banking facilities to customers. Therefore, service location depends on the alternatives available to the service provider and the customer.
- **Customer participation and interaction:** Service processes should be designed depending on the extent of interaction with the customer and his participation in service production and delivery. The level of customer interaction and participation differs from service-to-service. For example, the level of interaction between a banker and a customer is negligible in mobile banking transactions while the level of customer participation is high in deciding and ordering a menu for a wedding. It can also differ from channel-to-channel for the same service. The perceived quality of a service is enhanced if a customer has prior knowledge of the service process. For example, a customer who has an idea about the check-in process at an airport

will be more comfortable and can appreciate the improvements made by the airline in the process, when compared to a customer who has no knowledge of the check-in process.

- **The service itself:** Services can be either process-based or technology-based. Process-based services involve many activities that a customer has to go through before obtaining the service. For example, a student aspiring to join an IIM (Indian Institute of Management) course or any other business institution has to fill-up an application form, take the entrance test and appear for an interview, group discussion, etc., before gaining admission. Process-based services involve many people, with high levels of interaction between them. The service provider has an opportunity to improve the quality of service at every step and in each interaction. On the other hand, equipment or technology-based services require very little inter-personal communication between a service provider and his customer. For example, internet banking, offered by many banks like ICICI, HDFC, GTB, etc., has almost eliminated the need for personal interaction between a service provider and his customer. Through technology-based services are efficient and convenient for customers, service providers lose an opportunity to enhance the quality of service through personal interaction. Further, any problem in the teleological systems of the service provider affects the quality of service production and delivery too.

Types of Process

Process has been defined differently by various disciplines like computer programming, decision theory, operations management, etc., in addition to marketing. Though the terminology used differs, the basic idea or the core concept remains the same. According to all these disciplines, including marketing, a process should involve logical steps that can be broken down to increase efficiency. It should have an element of flexibility, which would help in achieving different results to produce the desired outputs. Given example “Simple Process” shows how the process of reserving a ticket against frequent flier miles has become simple over the years.

A service provider is required to have an understanding of the different processes available, and their applicability in the business. Many business decisions like layout, equipment selection, hiring service personnel, etc., depend on the type of process chosen. Let us now discuss the two types of processes available for a service provider.

For example,

“Simple Processes”
<p>With increasing competition, all service companies have made efforts to increase convenience for their customer. Earlier to book a ticket against frequent flier programmes, a passenger was required to submit an application to the branch office. The employees at the branch office would process the application and get the ticket. The whole process would take up to 10-days and involved a lot of documentation, leading to inconvenience to customers and increasing the possibility of errors.</p> <p>Later, the head offices integrated their databases with the branch offices, which made the process easier. The new process takes only 10 minutes and requires less documentation, leading to low costs and very little possibility of error.</p> <p>Airlines have adopted new technologies, making processes simpler. Passengers can reserve their tickets online and get an electronic ticket to board the flight. They can even check-in using the telephone. Thus, companies have started to think from the customer’s point of view, to make processes more convenient, simpler and easier to use.</p>

Line or Flow Operations

In this type of process, the activities required to produce and deliver a service are arranged in a logical flow or assembly line (as it is called in manufacturing units). High coordination among personnel and speed of operation are necessary for the process to run smoothly. In this process, the output of a particular stage becomes an input for the next stage in the process. However, the disadvantage of this type of process is the inflexibility involved. The process cannot be modified to suit fluctuations in demand or to offer customized services. This process should be adopted by services which require continuous operations to produce a standardized service without any deviations. For example, a French Fries chain prepares fresh French fries in five minutes; they follow line operations, as the chopped potatoes are fried in a machine and then processed in another machine to be salted. This process is applicable to fast food restaurants and can be adapted to suit specific needs. In this process, either a customer moves along with the operations from one counter to another as in a bank, or remains at one place and services are delivered one after the other, as in a restaurant.

Job Shop Process

In contrast to line operations, a job shop process determines the activities and their sequential arrangement based on the type of job at hand. This process is quite flexible and can be used to offer various types of services that need a similar set-up. For example, in a coffee shop, the same set-up can be used to serve a Cappuccino, a Café Latte, or an Espresso. Therefore, it provides an opportunity for service providers to customize their services according to customer needs. As customization of services involves a larger number of separate activities, this process demands more service personnel. Further, all the service personnel have to be trained to perform the various activities involved. This is an advantage as they can replace other absent workers. On the other hand, it has the disadvantage that none of the personnel will be specialized in a particular operation. Examples of service industries that follow the job shop process include workforce recruiting firms, management consultancies, etc. These firms have to customize their services according to the requirements of their clients.

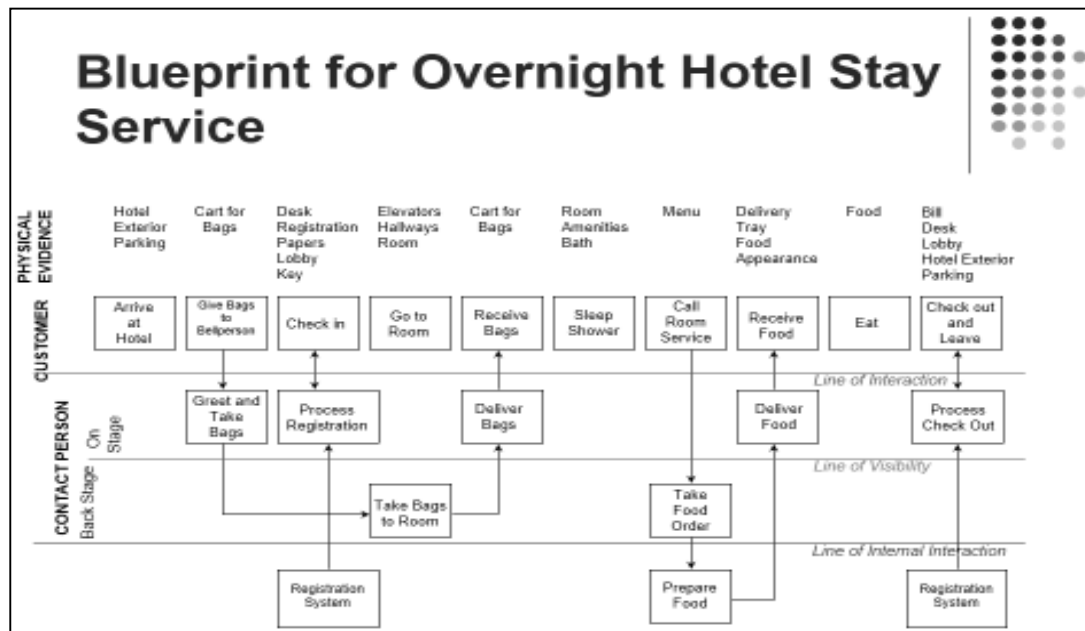
Planning a Service Process

A service provider has to take many decisions regarding the use of technology, people, materials and equipment in serving clientele. Most of these decisions are taken while planning the service process, which is in turn determined by the type of service offered and customer requirements. Let us now discuss the important decisions to be taken by a service provider in planning a service process.

- **Layout design:** Layout involves decisions regarding both production process and front/office layout. An ideal design uses the space available to the maximum extent, minimizing the movement of goods/people, and increasing customers' convenience. Finally, it should be pleasant and encouraging for the service employees as well as the customers. For example, the layout at an airport should place the luggage weighing equipment, ticketing counters, check-in counters, security check equipment, passenger and visitor lounges, and coffee shop in such a way that it increases the productivity of airport personnel by reducing the time and efforts involved, and also offers convenience to customers.
- **Organizational Structure:** Decisions under organizational structure determine the extent to which processes need to be standardized. They also determine whether an informal or formal organizational structure is to be adopted, whether decision-making is to be centralized or decentralized and how the organization is to be structured.

Service Blueprinting

A service blueprint depicts the entire service process on a map and shows the various stages of customer interaction with the service provider, and provides minute details of the service delivery processes, the tangible evidence of the service, and the people involved in carrying it out. Blueprinting helps in breaking up the service delivery process into a series of logical steps. Blueprinting can be used in either designing or redesigning service products. Let us now discuss the various elements of blueprinting.



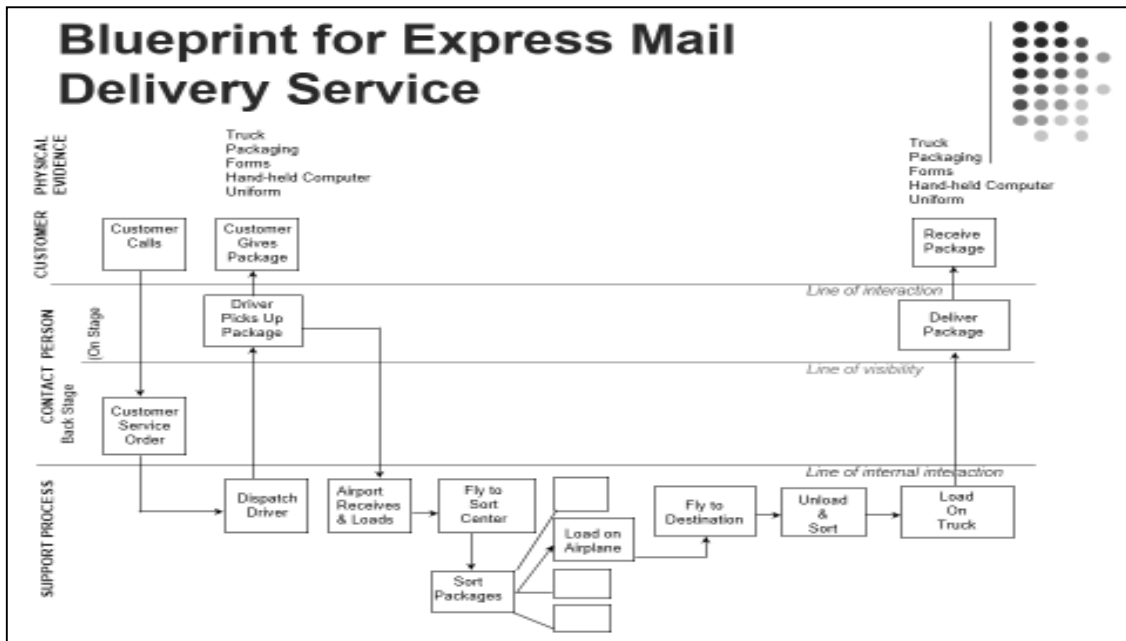
Elements of Blueprinting

These elements are discussed by Zeithaml and Bitner in "Services Marketing". The complexity of the service determines the type of symbols used and the number of lines in the blueprint. However, the rules in sketching the blueprint are not rigid. The following are the various elements of a blueprint:

- Customer role:** This element involves all the steps a customer goes through in selecting a particular service, purchasing it, consuming that service, and finally rating it. For example, a customer visits a restaurant depending on the type of food he wants to eat and his financial position, he interacts with the service personnel in the restaurant and orders the food, he consumes the food, pays the bill, offers a tip, and finally he evaluates the whole experience.
 - Onstage and backstage employee actions: Onstage employee action can be any activity performed by the service employees that can be seen by the service personnel. Onstage employees action may include the manner in which a waiter takes the order, the way he serves, etc., which can be seen by the customer. On the other hand, backstage employees actions include those activities performed by the service personnel, which are necessary to support the onstage service personnel. Backstage employees are involved in preparing the food for the customers, arranging them, billing the service, etc.
- Support processes:** A service blueprint maps all the support services, activities, or processes that help the service personnel in producing and delivering the services. For example, a hotel

may provide training for its service personnel (both onstage and backstage) on the aspects of service creation and delivery. This training is a support process.

- **Technology:** A service provider needs to look into different aspects of the available technology and the extent to which it needs to be upgraded for delivering the desired services at the expected quality. For example, banks that are planning to introduce internet banking should analyse the available technologies, and upgrade their systems to offer services through the internet. Above example gives the instance of a company imparting technological education to school teachers in India.
 - **Conversion process:** A service provider is required to choose a method of converting inputs into the desired output from the pool of alternatives available. For example, a bank can communicate with its customers through direct mail, facsimile, telephone, courier, internet, mobile phone, etc. The choice should be based on the organization's ability to bear the costs involved, customer preferences, the service quality level offered by each alternative, user friendliness of each alternative and the speed at which it delivers the services.
 - **Equipment:** A service provider should opt for equipment that is compatible with the other systems in the process. He should also analyze the extent to which it is useful in the process, compare its operating costs with the resultant benefits, assess the knowledge required by the operators to work with the equipment and finally, estimate its maintenance costs. This will help in choosing the right equipment for the process.
 - **Flow of process:** Process flow determines the flow of work from one stage to another to produce the final output. It involves the logical arrangement of service personnel and equipment to perform the operations according to the process. For example, McDonalds has a well-laid process flow with service personnel operating the equipment to deliver the standard services on time. Generally, companies use flow charts to develop the process flow.
 - **Service personnel:** Service personnel play an important role in production and delivery of services. In fact, they provide a competitive advantage to the service provider. A service provider should therefore be careful to hire the right people in terms of qualification and skills. He should then give them the right jobs to do, train and develop them continuously, and motivate them to deliver the best quality service.
- ● **Service location:** As services are intangible in nature, customers attach importance to the service location. They perceive it as an evidence of the quality of service offered. Therefore, service providers should choose a location that is easily accessible to customers, has a good infrastructure and the right atmosphere. For example, foreign banks and private banks in India today look entirely different from the old nationalised banks.



Positioning of Services

After segmenting and selecting the target market, the next logical step in developing a market strategy is to design a differentiation and positioning strategy. Let us look at some examples that show the importance of these concepts. The Ritz Carlton is considered one of the best hotels around the world for 'customer service'. Daewoo is well known for manufacturing 'family cars'. McDonalds, is known for its 'variety of products, speed and efficient customer service'. Jet Airways in India has received many awards for being the best airline to serve the economy and business class travellers. All these companies have differentiated their products/services well enough for their customers to view them as distinct from their competitors, offers and have helped them occupy a unique place in their customers' minds.

These companies have learnt to 'position' themselves well in their customers' minds and differentiate themselves from their competitors. They have done sufficient research to learn their customers' expectations and perceptions about various offers available in the market, and adopted effective competitor strategies to attract the customers. Further, they have identified the specific attributes that give them a competitive advantage over the other players in the market and worked on these attributes. In addition to occupy a better place in their customers' minds, they have effectively communicated their product/ service attributes to the customers. Thus, an organization's positioning strategy deals with how a company wants its customers to perceive its products or services in relation to those of its competitors. Companies that are not well positioned suffer in the competitive market with a low market share and low profit margins. Therefore, companies are striving to learn the secrets behind successful positioning.

Definition and Concept

"Positioning is defined as the process of establishing and maintaining a distinctive place in the market for an organization and/or its individual product offerings. Positioning involves a company's

products/services creating and occupying a place, in the minds of its customers. It also gives an account of the important attributes or characteristics preferred by target customers, when compared to a competitor's offers. Marketers should analyze the current position occupied by their firms in the (present and prospective) customers' minds and take necessary steps to create a distinct and effective position. For example, McDonald restaurants have loyal customers all over the world and this is due to the unique position it occupies in its customers' minds either due to the products offered or for its prompt and efficient service.

Hooley and Saunders describe the major issues in developing a marketing strategy as, "the identification of target market or markets, the customers that the organization will seek to serve and the creation of a differential advantage or competitive edge that will enable the organization to serve the target market more effectively than the competitor". According to Peter Doyle, "positioning strategy is the choice of target market segments, which determine where the business competes, and the choice of differential advantage, which dictates how it competes".

The above two definitions stress the differentiation and positioning aspects that help a firm gain a competitive advantage in the market. Marketers should have a thorough knowledge of not only the attributes of their products and services, but also those of their competitors in the market to understand the extent to which they differ. Further, they should also assess how the customers in the target market perceive their products/services and their attributes in terms of their specific needs. This information will give them an insight into the various offers made by the firm at present and the modifications required to hold a strong and unique position against its competitors. Customers view products/services as providing value to them. This value can be services value, product value, people value or image value, or a combination of any of these. The cost to the customer in procuring these products/services can be in terms of monetary cost, time cost, energy cost or psychic cost. The effective value to the customer is the sum value of the benefits less the total cost.

Example: Telenor launched free Insurance for its mobile users offering life insurance to its new and existing customers with covers starting from ₹ 5000 to ₹ 50,000. The mobile subscribers don't need to pay any premium for this. 47.5 mill existing customers get enrolled in the scheme by either calling up customer during 2015. Now customers get enrolled with little documentation and would get a cover equivalent to 100 times the value of recharge done on their prepaid number. The company has tied-up with Sriram Life Insurance and MicroEnsure for offering this service.

Positioning Strategies

Positioning is a very important aspect of marketing a product or a service. The three broad positioning alternatives as suggested by Michael Porter are as a product differentiator, as a low cost leader or as a nicher. He also suggested that firms should concentrate on one single strategy and excel in that rather than trying to be good at everything. According to him, when companies try to do this, they lose focus and are beaten by firms which have excelled in positioning themselves based on one single strategy.

These broad frameworks provide the firm with the basic foundation on which to build their positioning. Firms should look at strategies for specific positioning. These specific positioning

strategies can be based on an attribute or benefit of the service or the consumer or competitor of the service. Some of these specific strategies are discussed below:

- **Attribute positioning:** A service provider positions itself based on an attribute or a feature. For example, Malayala Manorama positions itself as the No.1 daily in India with the most number of readers and Allahabad Bank positions itself as the oldest bank in India. However, positioning based on a feature or an attribute may not work too well for some services.
- **Benefit positioning:** Most services providers resort to benefit positioning as the general psyche of the customer is to analyze the benefit that he derives by using a particular service. For example, banks like ICICI and Citibank offer facilities like ATMs and internet banking, to their customers.
- ● **Use/application positioning:** The service is positioned as the best for a certain application. For example, SBI positions itself as the best in the business where educational loans are concerned.
- **User positioning:** The service is positioned for a specific target group of users. For example, India positions itself as the destination for tourists seeking inner peace.
- **Competitor positioning:** The service is positioned by the provider against a competitor's service offering. For example, IIPM positions itself against the IIMs. Its ad says, "Dare to think beyond the IIMs".
- **Category positioning:** The service provider positions itself as the category leader and becomes synonymous with the service. For example, Essel World became synonymous with an entertainment park in India till more such parks were started across the country.
- **Quality/price positioning:** A service is positioned in the market as possessing a certain quality standard or at a particular price. For example, some of the Oberoi-Hilton hotels are positioned as high quality, high-price hotels. The Taj group is trying to position some of its hotels in the 'value for money' category.

Companies, however, have to be careful in designing their positioning strategies and avoid some of the associated pitfalls. Some brands are under positioned when they fail to provide a strong benefit or reason for the customer to choose them. On the other hand, some brands are over-positioned for a very narrow segment and so many potential customers fail to notice it. When a brand communicates two or more contradicting features/benefits, it is termed confused positioning. Irrelevant positioning is when the brand fails to attract any customers because of offering irrelevant and redundant features/benefits. It is termed doubtful positioning when a company promises something and the customer doubts its capacity or the brand's capacity.

Steps in Developing a Positioning Strategy

The positioning strategy is developed after detailed research of the target market, the competitors, and the current position occupied by a company. Let us now discuss the steps involved in developing a positioning strategy in detail.

Formulating Positioning Strategy

Product Differentiation	Personnel Differentiation
Features	Competence
Performance	Courtesy
Conformance	Credibility
Durability	Reliability
Reliability	Responsiveness
Repairability	Communication Style
Design (integrates the above)	
Image Differentiation	Service Differentiation
Symbols	Delivery (Speed, Accuracy)
Written Audio/ Visual Media	Installation
Atmosphere	Customer Training
Events	Consulting Service
	Repair
	Misc. Service

Determining Levels of Positioning

A company should first decide on the level at which they would like to position their products or services. A single company can position itself at different levels at different points of time. To discuss the topic further, let us take the example of Life Insurance Corporation (LIC) of India.

LIC has positioned itself at the *service level* by offering complete life insurance services to its customers. Its policies are flexible as the whole life insurance policy is further divided into Whole Life with Profits, Limited Payment Whole Life, and Single Premium Whole Life. It differentiates itself by offering customized and flexible policies. For example, LIC offers products like Komal Jeevan, Jeevan Sukanya, etc., for children; and Varishtha Pension Bima Yojana, Jeevan Akshay II, etc., as pension plans for elderly people.

Further, at the corporate level, LIC has positioned itself in its customers' minds as a trustworthy and reliable company providing complete insurance products.

At the *category level*, LIC has positioned itself as an insurance company with various investment options as against other categories that provide investment options, like banks and other financial institutions.

Identification of Attributes

After determining the level of positioning, companies should identify the attributes that are considered by the target market segment when making purchase decisions. Some of these attributes are discussed below:

- Customers often base their decisions on the unique features offered by the product class, as example, a hotel offering a free sauna bath or massage to its customers as a complementary gift.
- Customers consider the specific uses fulfilled by the products/services offered by a particular company. For example, insurance products that also serve as an investment option.
- Customers also base their decisions on the price of the product/service in comparison to the perceived delivered value. For example, a student might not mind spending a huge amount on getting an MBA degree as he perceives it to be a guaranteed path to a bright future.
- A service's ability to serve the needs of particular set of users also determines its sale-ability. For example, Disney Land positions itself as a fun place for children and Goa positions itself as the destination for fun-loving youth.
- The attributes should also provide rational and emotional benefits to the customers. For example, a customer may opt for a certain hotel as it is near his office and convenient to travel from during his stay. At the same time, he might opt for a particular airline because he likes the personal attention given by its crew members.

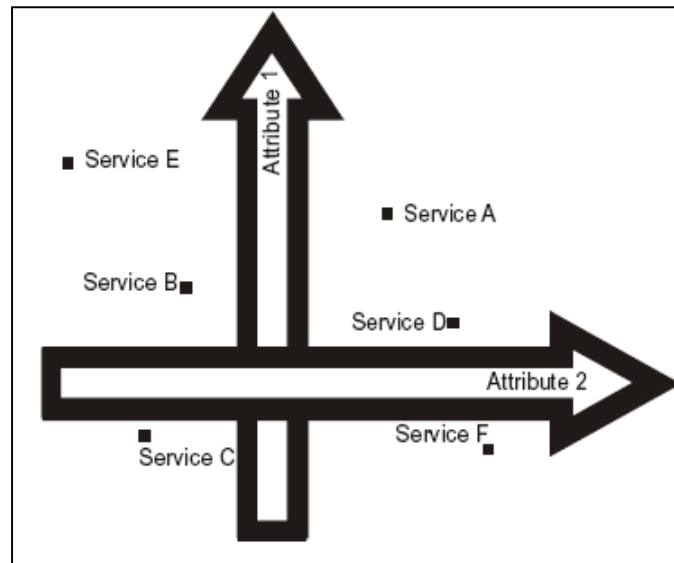
Conducting market research would help marketers understand customer preferences and the specific attributes on which they base their decisions. Companies develop their positioning strategies based on the customers' perception of these attributes. Further, they develop positioning maps by using these attributes. Some of the techniques used by marketers to identify these attributes are perceptual mapping, factor analysis, discriminate function analysis, multiple correlation and regression analysis, trade off and conjoint analysis.

Location of Attributes on Positioning Map

The attributes identified by the marketers are categorized into certain dimensions, which reflect the preferences of the customers. These services are plotted on a two-dimensional positioning map as shown in Fig. 2.13. These maps are used to identify the competitors' positions with regard to the attributes. Positioning maps can be developed for each segment in the target market and these maps will show the positions of different players, as per the perceptions of the customers in these segments.

Let us now discuss the basis for drawing these positioning maps. The basis may be objective or subjective, or both. Objective positioning is related to the visible attributes of the product or service. For example, an IT service provider can be objectively positioned for some unique service offered by it. On the other hand, subjective positioning is related to the image and not the physical aspects of the service.

It involves the perceptions customers have about these attributes. For example, a customer's experience on visiting a holiday resort is related to other attributes like his personal feelings and not the physical attributes. Given Example 'God's, Own Country' shows how a particular state tourism board in India has positioned its state to the global tourists.



For example,

'God's Own Country'
<p>In the early-1990s, advertisements featuring the tag-line 'God's Own Country', began appearing in the print and electronic media in India. The campaign was run by the Kerala Tourism Development Corporation (KTDC) and was intended to promote the South Indian state of Kerala as a tourist destination.</p> <p>The advertisers projected Kerala as 'the place to be', and highlighted its natural beauty and cultural heritage as its unique selling propositions. Further, they marketed every aspect of the state from the towns, cities, beaches, backwaters, cultural heritage, food, wildlife and even the centuries-old tradition of health care through Ayurveda.</p> <p>Over the next few years, the organization's efforts to 'sell' Kerala to Indians as well as foreigners began paying off. The state reportedly became one of the places with the 'highest brand recall', thanks to its unique positioning and targeting efforts. During the early and mid-1990s, Kerala's government concentrated on marketing attractions such as lagoons, lakes, canals, backwaters, boathouses and its 600-km coastline. KTDC even entered into agreements with various hotels, Indian Railways and Airlines, and insurance companies to service its tourists better.</p> <p>During the late 1990s, the focus shifted the marketing of hills stations, waterfalls, the Western Ghats, wildlife sanctuaries and the state's cultural traditions like Kathakali, Koodiyattam (traditional dance forms), temple festivals, Kalari Payattu (martial arts), boat races and Ayurveda. In 2000, the Kerala Travel Mart Society (KTMS) organized the Kerala Travel Mart 2000 (KTM-2000), a high profile promotional campaign, at the International Convention Centre, Kochi. This campaign made the tagline Kerala –'God's Own Country' popular worldwide. Gradually, as Kerala's marketing campaigns picked up pace, international travellers became aware of the state's rich culture, traditions, handicrafts, art and cuisine. KTM-2000 attracted holiday buyers from 32 countries including France, Malaysia, Singapore and Hungary. The state became one of the favourite holiday destinations of the millennium.</p>

Evaluating Positioning Options

Once the ideal positions are identified by the company, its services can be positioned in any of the following ways as explained by Ries and Trout:

Strengthening present position against competitors

This strategy is followed when a company wants to avoid a direct fight with the market leader. Therefore, a company tries to strengthen its position by improving its offers and providing efficient service.

Identifying an unoccupied market position

Marketers can either opt for a position that does not have any competitors or a segment that has not been tapped by the competitors. Marketers can successfully fulfill the needs of these target segments through good service quality.

Re-positioning the competitors

This strategy aims at regular re-positioning of a company's present position to obtain a superior position as compared to its competitors. Below example on "Live Every Movement" gives an account of how a cellular service provider in India has re-positioned its brand successfully.

For example,

'Live Every Moment'
<p>The Airtel brand (and the pre-paid card service brand, Magic) had top-of-the mind recall among cellular phone users and enjoyed a leadership position in most markets. Industry observers primarily attributed it to Bharti's strong brand-building and positioning strategies. In the late 1990s, many international and domestic players entered the segment. This increased the competition in the sector. This realization led Bharti to the launch of the 'Leadership Series' campaign and the campaign was reportedly successful and resulted in a marginal improvement in Airtel's performance.</p> <p>In August 2000, Bharti launched its new 'Touch Tomorrow', which aimed at strengthening its relationship with its customers. Commenting on the rationale behind the new campaign, Sachdev said, "The new campaign and positioning was designed to highlight the relationship angle and make the brand softer and more sensitive". According to company sources, the new need positioning was aimed at developing a strong relationship with the customers. Explaining the need for re-positioning, Sachdev said, Airtel was perceived as a premium brand. The new positioning is intended to add warmth to these attributes." In line with the company's objectives, the new TVCs and advertisements focused on highlighting Airtel as a brand that made it possible for customers to derive all the benefits of cellular telephony.</p> <p>Due to consistent marketing efforts, the Airtel and Touch Tomorrow campaign became very popular. Therefore, Bharti's decision to withdraw this campaign (Touch Tomorrow) in 2002 came as a surprise to many. The new campaign was accompanied by a change in the logo as well. The idea behind the new logo was to give Airtel a younger look. The logo (with new design and colour pattern) symbolized innovation, energy and friendliness.</p> <p>As part of the brand re-positioning and restructuring efforts for Airtel, Bharti changed the brand's tag-line in early-2002 from 'Touch Tomorrow' to 'Live Every Moment.' The company also decided to undertake a comprehensive brand building programme for the company and chose the slogan 'Unlimited Freedom' for it. Commenting on these changes, company sources said, "Airtel's brand identity and campaign will now have a new younger and international look and feel that builds on the earlier positioning." The shift to Live Every Moment from Touch Tomorrow, proved that Bharti was consistently on the lookout for the best marketing strategies for Airtel.</p>

Implementing the Position

This step is crucial in developing a positioning strategy as it involves conveying the right message to the target customers. All the elements of the marketing mix should be in tandem, reflecting the position a marketer wants to occupy in his customers' minds.

The right marketing-mix is helpful in implementing the positioning strategy effectively. Let us now discuss the elements of the marketing-mix for implementation of the positioning strategy:

The service

The type of service offered by a company itself is sufficient to deliver the position to the customers. For example, a bank that issues credit cards to farmers is said to have positioned itself innovatively. Customer service is an important aspect as it has the ability to differentiate the company's services and gain competitive advantage over competitors. Therefore, companies should regularly try to offer premium customer service and position themselves well in the minds of their customers. For example, the customer service at The Ritz Carlton provided it with an opportunity to be unique and different from its competitors.

The price

Marketers should clearly understand the effect of price on their customers' perceptions of quality and their purchase decisions. This will give them an opportunity to position products or services attractively to the customers. For example, an insurance company offers various products with various types of pay-out-structure to its customers.

The location

The location and the availability of service also determine the position of a company to a large extent. For example, a bank that offers the facility of on-line banking is more attractive to a busy traveller.

The promotion

A marketer has to concentrate on promotional and advertising aspects, as they clearly communicate a company's position to customers. The positioning statement should do the job of clearly communicating the position a marketer wants to occupy in his customers' minds. For example, statements like "Let's make things better" by Philips, and "I'm lovin' it" by McDonalds India, clearly suggest the position a company wants to occupy.

The people

The personnel of an organization are the ultimate people who interact with the customers and their behaviour creates a position in the minds of the customers. Therefore, marketers should train their employees on providing courteous service. For example, customer care executives at call centres are given training on how to talk to the customers and give them a patient hearing.

The processes

Processes play an important role in positioning as well as re-positioning a product or service. For example, re-positioning a service may aim at simplifying the existing processes for the convenience of the customer. For example, a bank can be positioned for its premium customer service. Further, it can

be re-positioned with the help of technology by offering its services through the Internet, stressing on the convenience of the customers.

As part of the positioning strategy, a company should first determine the levels of positioning it wants to occupy in the market, identify the attributes that are important to the target market, and locate these attributes on the positioning map in relation to its customers. Further, it should evaluate the positioning options available and decide if it wants to position itself against its competitor, or occupy a unique position in the market, or re-position itself. Last, it should opt for a good implementation strategy that clearly communicates the desired position to its customers.

MARKET SEGMENTATION

Introduction

Over the years, customers' expectations, needs, and desires have changed substantially. Customers are no longer satisfied with a single product or service offered by companies to satisfy their wide array of needs. For example, a family man looking to buy a motorcycle might pay more attention to features like longevity, sturdiness and mileage. A college going lad on the other hand, might prefer a brand of motorcycle for its style, image and appearance. This has made it necessary for companies to develop and market products to suit individual needs and preferences. However, every business operates under a set of constraints and it is, therefore, not possible for a single company to develop products or services to cater to the needs of all the customers in the market. This has led to the emergence of the concept of market **segmentation**.

Companies identify the various segments of the market and target those segments that are profitable and compatible with their objectives, resources and constraints. Segmentation can be done on the basis of various factors like age, financial status social status, etc., based on the business of the company. Customers' awareness of the market and its trends has increased tremendously in the recent times and the competition in the markets has enabled them to demand products or services that cater to their individual needs. The concept of 'mass customisation' which was discovered a few years ago has helped marketers in grouping their services/goods to cater to different segments of the market.

Market Segmentation in Services

Earlier, marketers developed homogeneous products and services as they wanted to minimize their production and marketing expenditure. They served the customer base with their homogenized products or services and the customers rarely had any issues over this. However, customer expectations changed overtime and they started showing their preference for customized products/services that suited them the best. At this juncture, marketers realized that although similarities existed certain customer groups, the customers differed in terms of age, economic positions, lifestyles, occupations, expectations, etc., For instance, an airline's customers comprised business travellers, tourists, students and their needs differed on various fronts like the time factor, the fare, the food served etc. While tourists wanted a good deal and a great ambiance, businessman looked for a service atmosphere and sharp maintenance of schedules. Offering a single type of service to cater to all their needs would not be a feasible option and would also result in a dissatisfied customer base. This realization paved the way for marketers to define their 'market segment', in the total market.

What constitutes a marketer's 'market segment'? A marketer's 'market segment' consists of his existing as well as prospective customers whose needs, desires, and expectations are different from the

customers of other segments and match the resource-constraint set of the marketer. The resources and constraints of a marketer define the set of products/services that he can market for the consumption of the customers. Kotler and Armstrong defined a market segment as “a group of consumers who respond in a similar way to a given set of marketing stimuli” and market segmentation as “the process of dividing a market into distinct groups of buyers with different needs, characteristics, or behaviour who might require separate products or marketing-mixes”. As given in the definition, a marketer should identify and select a segment that he is confident of serving better than his competitors, given his resources and constraints and thus emerge as a leading player in that segment. Given example loves the segmentation of the Indian insurance sector and how the private players are targeting the untapped rural markets.

For example,

‘Segmentation of the Indian Insurance Sector’
<p>The life insurance market in India is divided into two customer segments: individual and corporate. The segment comprising individual customers is further divided into four sub-segments – protection, investment, savings and pension. Protection products offer the customer only protection from risk. They do not provide any savings facility to the policy -holder. Investment products offer long-term investment growth and insurance cover. It was reported that in the individual insurance segment, the investment products segment was growing rapidly as it provided long-term investment growth and insurance cover. Savings products like endowment and money back policies provide a combination of protection and investment benefits. Pension policies are products offered to customers as income during their years of retirement.</p> <p>The corporate segment is divided into three sub-segments – protection, statutory savings, and pension. Group term insurance products provide low cost life insurance cover as part of employee benefit packages as a motivation to employees or to cover the housing/vehicle loan of the employee. The statutory savings segment comprises gratuity products for companies. The pension policies include products such as group superannuation, enabling a company to benefit from investment and the operational expertise of a specialist company to manage its funds.</p> <p>Over the years, LIC has been catering to both the individual and corporate segments. Its individual insurance policies include Endowment Policies, Money Back Policies, Term Assurance Plans, Periodic Money Back Plans and Joint Life Plans. The corporate policies include group insurance schemes such as group gratuity schemes, group term insurance, group saving linked insurance scheme and group leave encashment schemes. LIC provides a return of 7% on average on all its policies. Around 80% of LIC’s premium income comes from endowment and money back policies.</p> <p>Private insurers like AMP Sanmar have identified the untapped potential of the rural markets for insurance products and decided to target semi-urban and small towns by introducing simple and straightforward product features. AMP Sanmar has also decided that its product strategy should be to offer simple life insurance solutions to individuals, primarily aiming at wealth creation and risk protection. Birla Sun Life has also launched products meant for the rural population in order to capture a larger market share. Birla Sun Life Bima Kavach Yojana is a three-year single premium insurance cover available in denominations of ₹ 50, 100 and 200, which offered 100 times the amount of premium paid in the event of the death of the insurer. HDFC Standard Life has also announced that it would design special products targeting the rural markets and the socially underprivileged sections.</p>

Market segmentation helps in the clear understanding of customer needs, and in keeping track of changes in customer expectations. In the earlier example, of the airlines, if it aims to exclusively serve the business travellers, it should identify their needs and expectations and develop a marketing plan accordingly. According to Ved Prakash Chaturvedi, CEO of the ₹ 2,500 core Tata TD Asset

Management, market segmentation will get finer and there will be more products and services in the market. In fact, he says that Indians may even be able to invest in stocks abroad through the mutual fund route. The technological developments have now made it possible for the marketers to service even the smaller segments of the market with very specific needs.

Now that we have looked at the need for market segmentation, let us discuss the patterns of segmentation. The decision made by a company to serve a segment depends on its selection of the target market. A company can adopt any of the three market-coverage strategies that are discussed below:

Undifferentiated Marketing Approach

The undifferentiated marketing approach, also known as the mass marketing approach, aims at serving all the consumers by offering a single product or service. It involves a single marketing-mix. For example, an insurance company that offers a service policy for insuring life is said to have adopted an undifferentiated marketing strategy. This approach is successful when the product or service is a favourite among the masses or when there is no competition for it. In this approach, a company produces one product in large volumes, reducing production costs, opts for mass advertising, reducing the advertising costs, and adopts mass distribution, reducing inventory and transportation costs. Though these benefits do not accrue to a service provider, the operational costs are reduced. A major challenge for companies adopting the undifferentiated marketing approach is how to design and market a single product or service that will satisfy all the consumers.

Differentiated Marketing Approach

The differentiated marketing approach, also known as the product-variety marketing approach, aims at targeting consumers of various segments by offering different products or services for each segment. For example, the airlines from the earlier example may opt to serve the business traveller segment, domestic traveller segment, and international traveller segment, and might design its marketing-mix to cater to the needs of the consumers of all the three segments. A company aims to tap the entire market by serving each segment and thus become a market leader. This approach might prove to be successful if the brand name is well-known in the market and consumers from each segment identify the product or services offered with the brand. The company has to bear the higher cost involved in developing separate marketing-mix for each segment in terms of higher production costs, additional research and development expenditure, engineering expenses, higher market research costs, and higher promotional costs due to specific advertising targeted at each segment. However, the benefits associated with this approach are numerous as it increases total sales when compared to the undifferentiated marketing approach. It also helps a company gain the overall industry leadership as it caters to different segments of the market. Companies adopting this approach try to satisfy the consumers of each segment by identifying their buying patterns and designing their products or services accordingly. Enhanced customer satisfaction ensures repeat purchases and brand loyalty.

Concentrated Marketing Approach

The concentrated marketing approach, also known as the single-segment strategy, aims to serve limited segments in the total market. A company with limited resources adopts this approach and aims to serve only a few segments by catering to the specific needs of customers in those segments. This approach also reduces the production, distribution and promotional costs due to the specialization of operations.

Bases for Market Segmentation

Markets can be segmented on the basis of demographics, geography, psycho-graphics, and behavioural analyses of customers at large. Fig. 2.13 gives a diagrammatic representation of the bases for segmentation. Let us discuss each of these bases in detail.

Demographic segmentation: Demographic segmentation is carried out on the basis of age, sex, size and structure of family, income and educational levels.

Age: Marketers believe that people of the same age group behave in a similar manner and this belief has led them to segment the market according to age and market their products or services accordingly. For example, a couple aged around 60 may not have as much fun at an amusement park like Disney World, as children below 12 years or teenagers would have. Marketers believe that customer wants and expectations change with age and as also their capacity to process information. For example, when a marketer talks of the benefits of a health food, it might not appeal to a 10-year-old, but a 20-year-old would certainly be attracted.

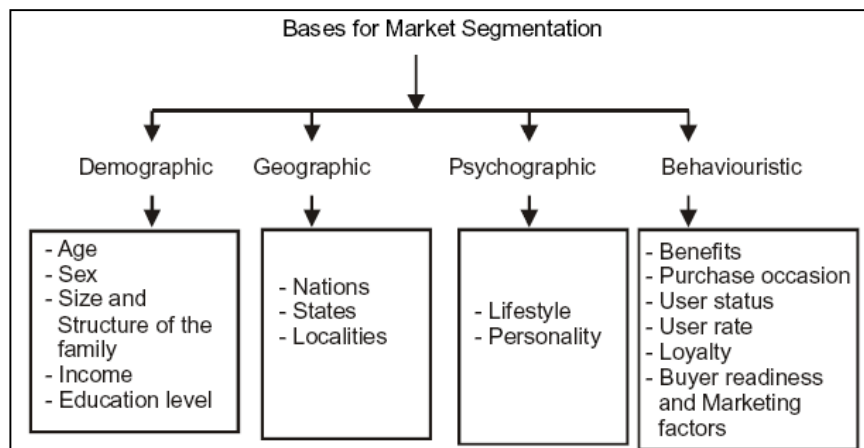


Fig. 2.8: Bases for Market Segmentation

Sex: Marketers can segment the market depending on the gender they would like to serve. Products or services can be designed for a single segment or both the segments.

Size and structure of family: In India, the family size has decreased to just 3-4 members from 5-6 members a few decades ago. Therefore, marketers can design their products or services to serve the needs of families with 3-4 members while providing the flexibility to serve more members if required. Further, with the increasing educational and job opportunities in cities, young individuals are moving to the cities and marketers have an opportunity for designing their services accordingly. For example, a restaurant can plan its seating arrangement by having more tables that can accommodate four members, and yet be flexible enough to be combined when they have to serve more than four customers.

Income: Income is one of the most important bases used by marketers to segment the market, as it determines the buying power of the customer in most cases. Studies shows that as income increases, customers tend to spend more on luxury goods or services and their spending on basic necessities as a percentage of total spending decreases. For example, an individual's ability to visit a health spa or an

expensive restaurant depends on his income. The data on income becomes more reliable if the family income is taken into account rather than an individual's as more and more families have become dual income families.

Educational level: One of the factors that determines the preferences and wants of an individual customer is his level of awareness, which, in turn, depends on his education level. For example, an uneducated person might not be aware of the usage and advantages of the cellular services available in the market, when compared to an educated person.

Geographic segmentation: Under geographic segmentation, the entire market can be divided into nations, countries, or states and the global market can be segmented into developed countries, developing countries, and underdeveloped countries. The gross domestic product of a country, its per capita income, standard of living of the people, and some aspects of demographics of a country like age are considered when segmenting the global market on a national basis. Further, markets can be segmented on the basis of density of population or the climatic conditions across regions. For example, people are migrating from rural areas to cities due to the increasing education and career opportunities in cities, leading to an increase in the population of the metros in the country. This will make a difference to marketers of specific services or products. In addition, marketers should also analyze the behavioural changes of the population that has migrated.

Psycho-graphic segmentation: Through psycho-graphic or lifestyle segmentation, marketers aim to find out the basic characteristics of a consumer that could influence his purchase decisions. In this type of segmentation, marketers divide the market on the basis of the lifestyle and personality of their customers.

Lifestyle: Marketers can gain valuable insights into the buying behaviour of their customers by analyzing their lifestyles. Further, they will be equipped with an understanding of their customers' way of life, their activities, interests, opinions and beliefs. This in turn will help them design their products or services accordingly. This type of segmentation also helps marketers to effectively design their marketing-mix for the customers. For example, the lifestyle of a young and single professional will be entirely different from that of a person who has just retired from service. In this example, the young professional might be more keen on spending than saving, while the retired person might think of investment options that will provide him with a steady income.

Personality: Marketers can design products or services that appeal to the personality types of their customers. For example, a customer who seeks to have a quiet and relaxing vacation will be attracted by a holiday package that offers yoga, body massage, etc., in a serene setting like the backwaters of Kerala. Similarly, a customer looking for fun and frolic will be attracted to a holiday that provides entertainment in a place like Goa, which is full of life and vitality. Marketers can design suitable holiday packages for their target segment as they understand their personalities and thereby their requirements and expectations. .

Behaviouristic segmentation: Under behaviouristic segmentation, customers are divided on the basis of their knowledge of a product or service and their attitude toward that product or service. Behaviouristic segmentation covers areas like the benefits sought by customers, purchase occasion, user status, degree of usage, customer loyalty, readiness stage and marketing factor sensitivity.

Benefit segmentation: This segmentation divides the customer base on the basis of the benefits sought. That is, the customers are grouped according to the benefits that they are looking for when

consuming a product or service. Marketers should gather adequate information on the various benefits that different types of people are looking for and then assess the ability of their product or service to deliver those benefits. For example, when a couple decides to go in for an insurance policy, it could look at interim benefits and long-term benefits. However, another couple going in for an insurance policy, could desire a different set of benefits from the policy, depending on their needs and financial plans.

Purchase occasion segmentation: This segmentation divides customers on the basis of the reasons behind their purchase. For example, a family may go out for dinner to an expensive restaurant to celebrate the wedding anniversary, birthday, or promotion of a family member. There might be another family which goes out to dinner at an expensive restaurant every weekend. Thus, the reasons to opt for the services of an expensive restaurant might vary from the celebration of a special event to a weekly ritual. These reasons for customer behaviour can help the marketers in better marketing of their services by targeting different segments.

User status segmentation: Customers can be divided based on their usage of a product or service and the pattern of usage. There can be different categories under this segment: non-users who never use the product or service; ex-users who used the product earlier and do not purchase the same product or service any more; potential-users who might not be using the product or service at present but stand a fair chance of using it in the future; first-time users who have decided to use the product or service for the first time; and regular users who use the product or service regularly. Marketing messages to target each of these users should be different. For example, marketers may add special features or discounts to attract potential or first-time users or can offer some additional benefits to retain their regular users.

Usage rate segmentation: This segmentation divides customers based on the frequency of usage of a product or service. This segmentation divides the user market into light, heavy, and medium user groups. Different marketing-mixes are aimed at the light, heavy, or medium users. For example, airline passengers who travel regularly on business may be heavy users of the service, while customers using the service for domestic purposes may be medium users and customers travelling by air only during vacations or for an emergency may be light users of such service. The airlines can introduce special packages for the benefit of the heavy users or to increase the frequency of air travel by the medium and light users. Thus, this segmentation helps the marketers in developing their business.

Loyalty segmentation: This segmentation divides customers on the basis of the degree of their loyalty toward a certain product or service. Marketers should consider price and product or service availability while segmenting the market based on customer loyalty. Let us discuss the types of customers based on their degree of loyalty:

- **Hard-core loyalists:** Customers who always use a specific brand of service and who refuse to switch on to any other brand, are known as hardcore loyalists. This behaviour is exhibited mostly by cigarette smokers, newspaper readers, etc. For example, an avid reader of The Hindu, who does not think of shifting to The Times of India or any other daily, is a hardcore loyalist.
- **Soft-core loyalists:** Customers who are loyal to two or three brands of product or service are known as softcore loyalists. Marketers attempt to develop strategies that shift customers from being softcore loyalists to hardcore loyalists. For example, a customer who does not mind reading The Hindu or The Times of India or The Indian Express, is a soft-core loyalist.

- **Shifting loyalists:** Customers who shift their loyalty from one brand to another every now and then are known as shifting loyalists. For example, a person who was loyal to The Hindu till recently shifts his loyalty to The Times of India and might shift to The Indian Express soon. There is a possibility that he might shift back to any of these newspapers in the future.
- **Switchers:** Customers who are not loyal to any brand and are equally comfortable with any brand are known as switchers. For example, a person who does not have any preference and reads any English daily depending on the availability is an example of a switcher.

Buyer readiness and marketing factors: Market segmentation based on buyer readiness divides customers based on their willingness to buy and likelihood of purchasing a certain product or service. Marketers identify people under different segments based on various factors like their awareness or knowledge for the product or service, their liking and preference for it and their conviction to purchase it. For example, a young music fan might know every detail of an upcoming Bryan Adams show and be determined to attend it. His father, though a music lover, might not have any knowledge about this and might not like going for the show.

Requirements for Effective Segmentation

Segmentation is done by almost all marketers, but the exercise fails to achieve its objective if it does not take into consideration some basic factors. An effective segmentation of the market depends on various factors like the firm's ability to reach out to the segment and its ability to sustain its marketing efforts. Some of these factors are discussed below:

Measurability

The variables used for segmentation of the market should be easily understandable and assessable. Further, the variables should contribute to determining the prospects for growth in each segment. For example, a firm that has no intermediaries and sells its products directly to the customers can easily gather information relating to customer purchase behaviour like frequency, mode of payment, volume, and product groups, from their existing customer database.

Accessibility

This refers to a firm's ability to effectively reach out to the market segments through various distribution and promotion channels. The marketers should develop a marketing-mix that is economical and reaches the chosen segment effectively. For example, if a service is aimed at attracting the teenager segment, then the advertisements should be developed keeping the target segment in mind. In addition, marketers should also study the factors influencing buyer behaviour in terms of individual and group behaviour and family lifestyles.

Substantiability

Marketers should choose their market segments in such a way that the returns on investment are earned quickly. For example, a very niche segment like young graduates working in shifts (especially those in the BPO and related sectors), might not be a good choice. Ideally, a large segment that has the capability of earning and sustaining profits should be targeted.

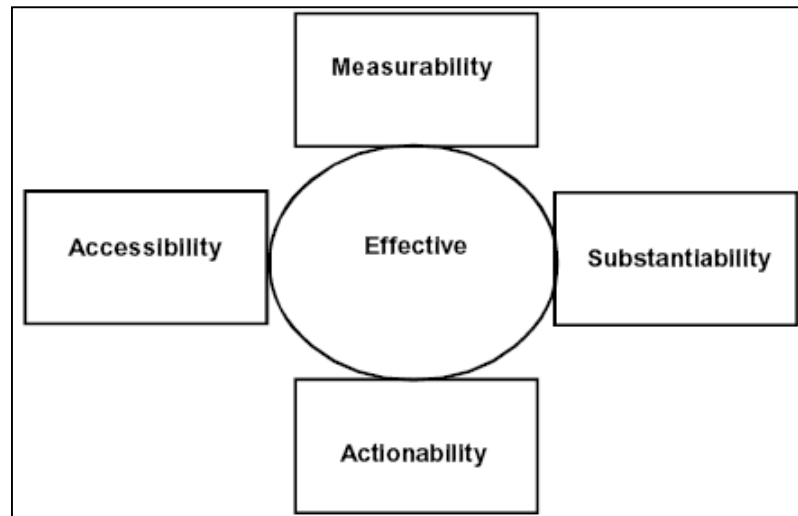


Fig. 2.9: Requirements for Effective Segmentation

Actionability

This refers to the ability of firms to effectively design and manage marketing mixes in order to attract and serve different segments. Marketers should use those bases that can track the segments with varying preferences or needs. Further, these segments should exhibit variations in their market behaviour and respond differently to marketing-mixes that are designed on an individual basis. Refer to Fig. 2.7 for an illustration of these requirements.

Process of Marketing Segmental Segmentation

The process of segmenting the market is not an easy exercise and involves several steps. As we have seen earlier, there are different bases on which segmentation is done and this complicates the process further. The process of market segmentation involves three major steps – identifying customer segments; selecting customer segments; and testing the segments for relevance. We shall now discuss these steps in detail.

Identifying Customer Segments

The first step in the process of market segmentation is to identify the customer segments using any of the basis discussed under 'basis for segmentation' earlier in the chapter or a combination of these. Customers can be identified on the basis of geographics, demographics, psychographics, or behaviourist characteristics. The marketer should determine the basis for segmentation based on the area of business. For example, if the marketer is in the business of financial service, he can opt for demographics or behaviouristic characteristics (benefits) as a basis for segmentation. In this case, using geographics might not be a very good option.

Identifying customer segments helps the marketers in designing, promoting, delivering or pricing the service for each segment. It basically helps them in identifying the marketing-mix for each segment. For example, when a financial services firm segments the market based on income and benefits and realizes that more and more middle-class families are opting for mutual funds as an investment option, it can plan to cater to this segment by entering the mutual fund market. Each

segment may have different preferences – while some may be price-oriented, others may be quality or brand-oriented. Therefore-marketers should find the existing similarities in the purchasing patterns of the target segments.

Developing Measures for Structural Attractiveness

The second step involves analyzing the segments identified in the first step on the basis of their size, growth potential, profitability and the purchasing power. Estimating each segment on the above bases will help marketers select and invest in segments that can fetch the best results for the company. For instance, a segment that might not be very profitable then, but has great potential to fetch profits in the future, could be chosen by a marketer who is not looking for immediate returns, but wants to earn good profits in the long-term.

Selecting Customer Segments

This is the final stage in the segmentation process and involves developing the profiles of the customer segments identified in the first step and analyzed for profit and growth potential in the second step. It includes developing products or services and their marketing-mix that match the user profiles. For example, the financial services firm targeting the middle-income group should design mutual funds based on equity or debt, to suit the needs of the target customer segment.

BALANCING OF DEMAND AND CAPACITY IN SERVICES

The demand for airline services can be high in two instances. One is during a period of economic growth when there is a lot of business activity in the country and the number of business travellers increases. The second instance is during a festive or holiday season when the number of leisure travellers increases. On the other hand, the demand for the airline services reduces when the economy is hit by recession as corporate enforce budget cuts in the area of travel. The demand also reduces when schools and colleges have exams or during the off-season. How does the airline manage its capacity to suit these fluctuations in demand? How should it optimize its services to get maximum benefits?

The above paragraph explains the problem of fluctuating demands in the airline industry. These fluctuations affect most services except the essential ones like medical and educational services. Managing demand in services is a major challenge as, unlike goods, most of the services cannot be stored. For example, underutilisation of an airline's seating capacity on a particular trip is a loss to the airline as those seats cannot be stored or used for the next trip. The capacity and demand for each trip are unique and the unutilised capacity or excessive demand in one trip cannot be transferred to the next (it might be possible for the demand to be transferred in some cases when the customer decides to take the next available flight). In addition, many services are produced and consumed at the point of delivery and in these cases, predicting and managing demand becomes difficult. For example, demand for personal care services at a beauty parlour on a particular day cannot be predicted beforehand nor can these services be stored so as to balance the demand during slack periods.

There is a need to manage capacity to meet the fluctuations in demand, for both goods and services. However, there are some constraints. For example, the seating capacity of an airline cannot be increased to meet the increase in demand and decreased when there is no demand. Therefore, the airline has to increase the number of trips to meet the rise in demand (however, there is again the

constraint of the number of planes they own or operate). On the other hand, when the demand is low, airlines should try to reduce the number of flights to avoid operational losses. It is very important for a service provider to learn and adopt new ways to manage demand and capacity.

In this chapter, we will discuss the concept of demand, understand demand patterns, capacity constraints and the strategies to match demand and capacity. We shall also learn how to create a demand inventory through queuing and reservation systems. Finally, we shall discuss the concept of yield management.

Concept of Demand

Demand is not an independent variable that operates in isolation. Many factors in the economy influence demand for certain goods and services, giving rise to fluctuating demand levels. Recession or boom in the economy, wars, technological developments, and natural disasters are just some of the factors that influence demand. Let us now discuss the effect of these factors on demand fluctuations.

Contraction and Recession

Contraction is a phase in the economic activity, which is symbolized by a decrease in the growth rate of the economy and is visible in retarded industrial production, employment, real-income, and trade. Economic contraction occurs due to recession or depression in the economy if it continues beyond two quarters. An economy is said to have been hit by recession when its growth rate is substantially below normal for six continuous months. Normally, the period of recession extends from one to two years. Depression is a severe form of recession. It occurs when there is a significant decrease in the economy's total production along with a high unemployment rate for more than a year.

For example,

'Recession and Services'
<p>Unlike the business cycles of manufacturing economies, where a cycle of boom and bust follow each other typically spanning over ten years and two years respectively, service economies function in a different manner. Services can be divided into basic services that people cannot compromise on and there are other services that people can avoid during recession.</p>
<p>The demand for basic services like education, and medical facilities will not decrease during recession. People will continue to consume these services independent of the economic situation. This is because people cannot compromise on these essential services and hence are ready to pay high prices for them. On the other hand, there are some services that can be foregone during an economic downturn. People tend to cut down on consumption of services like entertainment, restaurants, travel and tourism during periods of recession.</p>
<p>Analysts and experts feel that services are more recession-proof when compared to physical products. This is true to a certain extent as service organization can manage their inventories without incurring huge losses. On the other hand, manufacturing organizations tend to over produce goods during the boom period which tend to lie idle during recession, leading to huge inventory costs and subsequent losses. In contrast to manufacturing organizations, service organizations can immediately lower the supply services if they find the demand low and thus recover quickly from adverse effects. Further, services organizations can also increase their capacity, with very little investment, as compared to manufacturing organizations.</p>

When the economy is going through a phase of contraction, the demand for goods and services reduces as the unemployment rate increases. People who are employed have a fear of being laid off and are also paid less, resulting in little spending and more savings. This decreases the demand for

various financial services. Various economies are still to recover from the effect of the recession that started in late 1990s.

Expansion or Boom

It is a phase in business cycle, which is represented by an increase in the overall economic activity and growth. An extended period of expansion is referred to as a 'boom'. During this period, the demand for goods and services increases which enables producers to increase their supply and their revenue. Producers have to recruit people to increase the supply, which results in an increase in the demand for labour. This in turn increases employment and results in higher salaries for the employees. On the other hand, as many people are employed, they try to invest in stocks, bonds, etc., to increase the value of their money. Thus, there is a further demand for financial services. At the same time, as people have more disposable income, they spend on recreation, travel, entertainment, etc., which increases the demand for industries providing these services. Therefore, expansion of an economy is a good period in the business cycle as it increases the demand for goods and services.

Technological Developments

Technology has developed unimaginably over the past 10-15 years. The invention of powerful tools like internet has changed the way people work in the 21st century. The internet has made online trade possible, facilitated communication at a rapid pace with the help of e-mail, teleconferencing, etc., and provided many such facilities that increase convenience at work. These days, banking and investment can be done through the internet, online reservations are available for travel, and entertainment and other special features like medical counselling, etc., are also available on the internet. Further, technology has enabled users to produce technical documents in a short period with the innovation of Computer Aided Design (CAD), which is more flexible and accurate.

In addition, technology has enabled marketers to develop highly sophisticated cellular handsets that have improved communication between people. These handsets have many features like e-mail, short messaging service (SMS), multimedia messaging service (MMS) that enables them to transmit pictures and voice to other cellphones. These mobile phones have largely improved the ease, speed, and convenience at which business can be done. Further, technology has helped manufacturers to develop more efficient high speed and fuel-efficient modes of transportation at affordable prices. Airplanes have improved their capacity, frequency, and comfort levels.

Demographics

In some cases, even demographics play an important role in increasing or decreasing demand for some goods and services. For example, people in developing countries like India, with a vast English speaking population, attracted companies from developed nations like the US and the UK to outsource their business activities. Similarly, the spending power of baby boomers in the United States (those born between 1946 and 1964) increased the demand for many goods and services since the 1960s.

Natural and Other Disasters

Apart from the above factors, the following factors have also influenced the demand for various goods and services in recent times.

- Let us review the fate of the airline industry after the September 11, 2001 attacks on the United States and how it affected other industries. These attacks psychologically affected

many people; their confidence levels dipped low making them choose other means of transport. This situation badly affected the demand for air travel and many airlines had to cut back on their capacity and number of trips, which meant a decrease in their income. Eventually, they had to lay-off many workers, and all this indirectly affected the demand for goods and services in other industries. For example, low demand for in-flight meals would affect the food-suppliers; cut down in the number of flights would decrease the demand for airline equipment, etc. Thus, a decrease in demand in a particular industry had an impact on the demand in other related industries.

- Service Acute Respiratory Syndrome (SARS), a respiratory illness with pneumonia like symptoms that took many lives around the world, had a severe impact on the travel and tourism industry in 2002-2003. Governments banned travel to the SARS affected countries as a protective measure to prevent the spread of the disease. The recent Iraq war also affected the global economy adversely. Many countries cut off their flights to Gulf countries and stopped using the air space of Middle East for safety reasons. There was a trade imbalance too for a short time, which was later restored.
- In 2003, another natural disaster hit the poultry products in the form of the bird flu virus, which affected chicken and was transmitted to humans through them. Several governments banned the imports of poultry products and WHO ordered mass slaughter of chicken in some countries to prevent further spread of the disease. Similarly, mad cow disease also affected the demand for dairy products and beef a few years ago. When specific industries like poultry and dairy get affected, they directly or indirectly have an impact on the economy of a country, which depends on these industries, to a certain extent.

DEMAND PATTERNS

The first step towards managing demand in services is to understand and sketch a pattern of demand variation. It is also important to understand why some market segments have a greater demand when compared to others at particular times. Further, we shall also discuss the factors that cause demand fluctuations, and finally understand how to forecast demand for services.

Sketching Demand Patterns

An organization has to track and sketch the demand level for its services at specific time periods. This can be done with ease and accuracy, if an organization maintains a customer database and a record of varying demand levels over a period of time. Companies which do not have a computerized database can adopt more informal methods. Companies should track the demand levels regularly, viz., daily, weekly, and monthly. The demand level for some services varies seasonally; therefore, organizations should gather and record information on a periodic basis to predict the future demand levels. In some cases, it might be relevant to observe the demand levels even on an hourly basis. For example, tracking the demand for a restaurant's or a fast-food centre's services on an hourly basis might be useful in understanding the demand patterns. The demand patterns for some services can be easily predicted, while patterns for some other services can be understood only after drawing the demand levels on a chart.

Foresee-able Cycles

After capturing the data on demand levels in the form of charts, an organization should and observe the charts for predictable demand patterns. For example, the patterns over a day on an hourly basis, over a week on a daily basis or over a year on a monthly basis should be captured, to meet the organizational needs. In some services, however, predictable patterns can be noticed during regular or specific periods. For example, the crowd at theme parks, movie halls, and restaurants would be large during the weekends or holidays when people have enough free time. Similarly, employees tend to invest more in various financial services when it is time to file their tax returns and as a result, the demand for financial services increases during that period.

After an organization has identified a predictable cycle, it should further try to analyze the reasons for these fluctuations in demand. These causes can be anything ranging from seasonal conditions to date of payment of salary or wages, and from vacation time for schools to tax payment or refund cycles. For example, some hospitals offer concession on health check-ups at a certain time of the year, and these concessions will lead to an increase in the number of people opting for a health check-up.

Random Demand Variations

As discussed in the above section, some of the demand patterns show predictable cycles, whereas, others are random or ad hoc in nature. However, causes associated with these demand patterns can be identified most of the times. For example, the impact of changes in weather conditions on entertainment and recreational services may not be predictable. Similarly, random demand patterns for services like health care and insurance have no specific pattern or style except that the demand is highly visible when natural disasters like floods or earthquake take place.

Demand Patterns by Market Segment

An organization that maintains a comprehensive customer database which includes all the transactions with each customer in a detailed manner is at an advantage as demand patterns exhibited by each segment can be easily identified. This type of database will give in-depth information about the stable or random demand patterns shown by various segments. For example, if a tour operator keeps track of its regular customers, it might get some gainful insights into their spending patterns. If it notices that most of its customers take their families on an annual vacation every year, it can design special packages to suit their needs. Similarly, if a financial services firm identifies that the salaried middle-class is interested in tax savings but not in insurance, it can design special instruments to suit their requirements.

Capacity Constraints

Capacity can be defined as the ability of a service organization to meet its demand and the extent to which it can do it. Capacity can be expanded or contracted to suit the demand patterns. However, this is not possible in some services as factors determining capacity such as time, labour, equipment, and other production facilities are fixed and cannot be expanded or contracted with demand. Let us discuss these factors in detail. Fig. 2.10 gives a diagrammatic representation of capacity constraints.

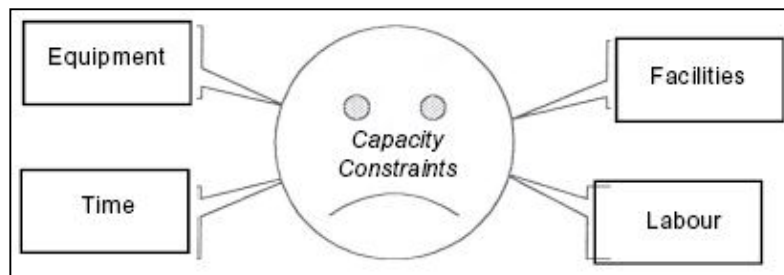


Fig. 2.10: Capacity Constraints

- Time:** The main constraint for expanding the capacity in some service businesses is the time available with the service provider. For instance, the revenues and profits of professionals like lawyers, doctors, consultants, etc., depend on their ability to use their time in a productive manner. However, when there is a high demand, these service providers cannot increase their capacity to offer services and when the demand decreases, they have ample free time, which cannot be utilized. Therefore, time is the biggest constraint for these service providers.
- Labour:** Organizations that hire the services of employees to offer services to the customers face capacity constraints in the form of available or unavailable labour with the organization. For example, an increased demand for the services of a department in a university, a law firm, or a tax consulting firm, cannot be met when these service providers are already working at their maximum capacity. On the other hand, it may not be feasible for the organization to hire additional workers in a competitive market which exhibits low demand for service during the off season. The Indian IT firms for example, hire employees in large numbers when the demand for their services increases. However, these employees have to sit on the bench when the market is down and the size and number of projects decreases. Labour constraints may also arise from lack of skillful labour to perform the job. Example gives an account of labour constraints in the BPO industry.

For example,

'BPO's Internal Challenges'
<p>The Indian BPO industry in recent times has attracted many fresh graduates with good English speaking skills and an ability to work during nights. There has been no problem in hiring employees for the entry-level positions as there are a large number of competent and aspiring candidates in the market. However, as the BPO industry is still in its nascent stage and has just completed around 5 years in India, there is a lack of competent managers in the middle-level and senior-level management positions.</p> <p>As a result, the attrition rates are quite high. One of the easy avenues available to these companies is to recruit from competitors from captive outsourcing centres like GE and American Express. This has resulted in a higher attrition rate of 45% or in these captive BPOs as against the industry average of 35%. Many companies are offering special facilities to their employees to reduce the attrition problem and attract competent resources. These include 24/7 in-house cafeterias, home pick-up and drop facilities, educational loans, arranging weekend parties, passes for music events and many other such facilities.</p>

- Equipment:** Service organizations that require equipment to carry out their operations may face capacity constraints due to the limited equipment available with the service provider. Courier service providers like FedEx, UPS, etc., face constraints in terms of the size of the fleet available with them during festive season like Christmas, when the demand for courier services is high.

- **Facilities:** Some service organizations face capacity constraints due to limited facilities available with them. For example, the number of rooms in a hotel cannot be increased during periods of high demand. Similarly, a restaurant's capacity is limited by the number of tables and chairs available and a university's capacity is limited by the number of seats available to the students.

Strategies to Match Demand and Capacity

An organization should make efforts to understand the demand patterns and its capacity constraints to effectively formulate strategies that can match demand and capacity. Fig. 2.9 presents a diagrammatic representation of variations in demand relative to capacity. There are two options for an organization if it desires to match its demand and capacity. An organization can either opt to shift the demand to meet the capacity or to increase or decrease the capacity to match the demand fluctuations. Let us discuss both these strategies in detail.

Shifting Demand to Match Capacity

With this strategy an organization seeks to shift customers away from periods in which demand exceeds capacity, perhaps by convincing them to use the service during periods of slow demand. This may be possible for some customers but not for others. For example, many business travellers are not able to shift their needs for airline, car rental, and hotel services; pleasure travellers, on the other hand, can often shift the timing of their trips. Those who can't shift and can't be accommodated will represent lost business for the firm.

Demand Shift

When the demand for a particular service is higher than its capacity at a given point in time, organizations adopt the demand shift strategy, wherein they shift their customers to use their services at a later period when the demand is low. For example, the telephone tariffs are low in the early mornings and late nights to shift some of the demand from the peak hours to these slots. However, some customers may not be willing to shift and in these cases, an organization will lose business as it is unable to accommodate these customers. For example, a crowded restaurant that is operating at its full capacity cannot accommodate more people. These customers might go to another restaurant, which means lost business for this restaurant.

Shift Demand

Demand Too High	Demand Too Low
<ul style="list-style-type: none"> ● Use signage to communicate busy days and times. ● Offer incentives to customers for usage during non-peak times. ● Take care of loyal or "regular" customers first ● Advertise peak usage times and benefits of non-peak use ● Charge full price for the service – no discounts. 	<ul style="list-style-type: none"> ● Use sales and advertising to increase business from current market segments. ● Modify the service offering to appeal to new market segments. ● Offer discounts or price reductions. Modify hours of operation. ● Bring the service to the customer.

Fig. 2.11

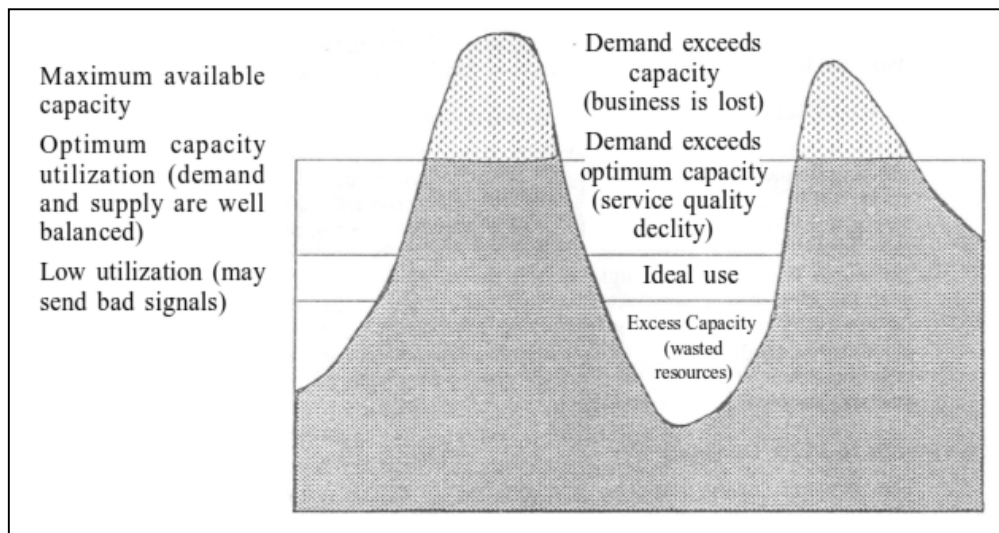


Fig. 2.12: Variations in Demand Relative to Capacity

Source: C. Love-lock. Product Plus. Boston: McGraw Hill, 1994.

During periods of slow demand, the organization seeks to attract more and/or different customers to utilize its productive capacity. A variety of approaches, detailed in the following sections, can be used to shift or increase demand to match capacity. Frequently a firm uses a combination of approaches. Ideas for how to shift demand during both slow and peak periods are shown in Fig. 2.10.

An organization tries harder to attract customers during periods of low demand, in order to operate at its full capacity. Organizations opt for various methods to increase or shift demand in order to meet their capacity. Some of these methods are discussed below:

Varying the original service offer

Here, an organization adopting this method, changes its service offering to suit the seasonal, weekly or daily demand fluctuations. For example, caterers who serve at marriages may choose to serve at birthday parties or business gatherings during the non-marriage season. Thus, the core benefits associated with a service can be altered to match the demand and the organization's capacity to meet the same. However, organizations should weigh the pros and cons before changing the original service offering, as it requires changing the marketing-mix elements like staffing, promotion, and pricing.

Communicating with Customers

Informing customers about the peak rush hours will help them understand the pattern and shift their business hours accordingly. Some customers may not be interested in conducting their business during peak hours as the service delivery may get delayed or the service might not meet the expected standards. For example, bankers will be very busy during the first week of every month as they have to take care of salaries, government pensions, etc. When the customers are informed about this, some of them may prefer to carry out their transactions with the bank later in the month.

Altering the Timings of Service Delivery

Service organizations should note the periods when the customers need to or want to deal with the service provider. Maintaining business hours accordingly would help the customers as well as the service provider. For example, a decade ago, bankers worked for only six days a week, but with the increase in demand for their services, increased competition in the market- place and an increased demand for convenience by the customers, the present day bankers operate seven days a week. Similarly, restaurants make special offers to their customers during the low-demand hours. For example, when Pizza Corner launched a special offer scheme during the India-Pakistan series in Pakistan in 2004, they made it available from 3 p.m. to 7 p.m.

Price Differentiation

Some service organizations may choose to vary their prices with the intention of shifting demand from high-demand periods to low-demand periods. For example, bars often offer happy hours by charging lower prices during the day. Similarly, telecommunication companies charge a lower tariff during public holidays and during late hours of night. However, companies should be cautious while offering special prices, as the customers might expect the same prices during their next interaction with the service company. Also, there is the danger of the service organization ending up attracting other segments instead of their target market segment. In some cases, price differentiation might have a negative impact on the organization's image if the organization is associated with a high quality at a high price and enjoys an exclusive and rich clientele.

Adjusting Capacity to Meet Demand

This strategy involves altering and aligning an organization's capacity to meet the demand. When the demand for a service is at its peak, capacity can be expanded and when the demand is low, the capacity can be reduced to conserve the organizational resources. Though there are some capacity constraints, organizations can make some alterations to meet the change in demand.

Firstly, the primary service resources discussed earlier in the chapter (time, labour, facilities, and equipment) can be expanded or contracted temporarily to meet the demand. Let us discuss how this can be done.

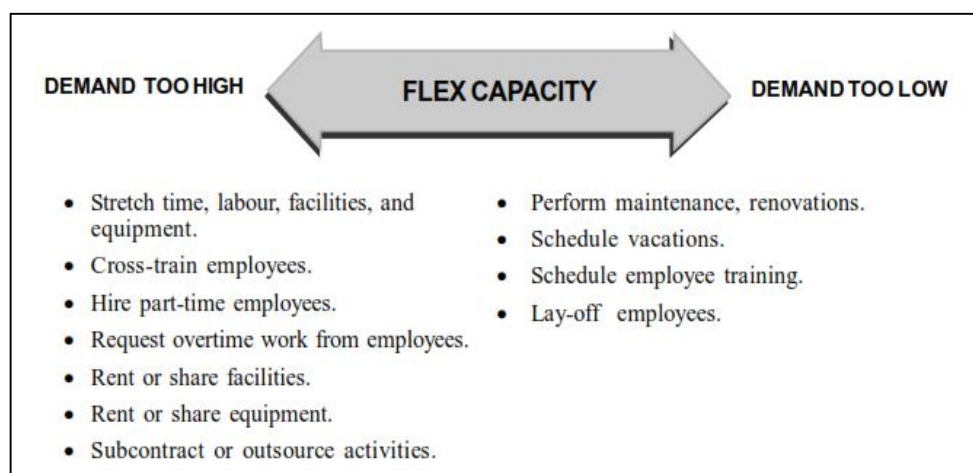


Fig. 2.13: Strategies for Flexing Capacity to Match Demand

- **Time:** Service organizations may opt to extend their business hours to meet the demand during peak periods. For example, financial consultants and investment advisors extend their office hours during the end of financial period when they have more customers seeking financial advice. Organizations can similarly reduce their working hours during slack periods.
- **Labour:** Labour is one area where an organization faces major constraint when the demand changes. Labour cannot be hired when there is peak demand and disposed of when there is a slack demand. For example, an IT firm cannot hire resources when they have a lot of business and retrench them when their business experiences a slow down. One option that organisations have to add more resources on a contract basis so that they can be employed only when the organization needs them. Outsourcing some of the activities is also another option available to the organization, to deal with fluctuating demands.
- **Facilities:** Facilities at theatres, classrooms, and restaurants can be stretched or altered to an extent. For example, a restaurant can increase its capacity during peak hours by adding more tables and chairs to meet the excess demand. Similarly, an airline can increase the number of trips to a destination when the demand is high. For example, an airline might decide to increase the number of flights to resorts during the summer, by diverting planes that fly to destinations like Jaipur, which are excessively hot in summer.
- **Equipment:** Organisations cannot buy equipment, to meet the increase in demand and dispose them of during slack periods. To meet a temporary increase in demand, equipment like ovens, computers, etc., can be used for a longer duration or can be hired temporarily to meet the increase in demand. However, this may not be feasible when it comes to infrastructure like telephone lines, hotel rooms, etc.

Flexing Capacity to Meet Demand

A second strategic approach to matching supply and demand focuses on adjusting or flexing capacity. The fundamental idea here is to adjust, stretch, and align capacity to match customer demand (rather than working on shifting demand to match capacity as just described). During periods of peak demand the organization seeks to stretch or expand its capacity as much as possible. During periods of slow demand it tries to shrink capacity so as not to waste resources. General strategies for flexing the four primary service resources (time, people, equipment, and facilities) are discussed next. Specific ideas for adjusting capacity during periods of peak and slow demand are summarized in Fig. 2.18. Often a number of different strategies are used simultaneously.

Some of the basic strategies adopted by service providers to match demand and capacity by altering capacity are discussed in detail here. They are covered under the broad approach of 'Chase demand'. This process involves matching the four primary resources, namely, labour, time, equipment, and facilities with the demand. Some of the popular methods, are:

- **Employ Part-time or Contract Workers:** Organisations focus on recruiting part-time or contract workers instead of full-time employees in order to meet the changes in demand. For example, managements of holiday resorts employ more workers during the high demand season and consultants hire additional staff during the financial year-ending when there is a peak demand for their services.
- **Outsourcing:** This is a very popular method employed by today's organisations to handle demand variations. When organisations feel that hiring additional workers to meet a temporary increase in demand is too expensive, they employ the service of other firms that

specialise in performing the required functions or tasks. This is advantageous as an organization can save money and time on training the new employees and they do not have to bother about excessive manpower when their business slows down during a slack period. For example, organisations outsource their recruitment activities to HR consultants.

- **Share Facilities or Rent Equipment:** Another approach that can be adopted by organisations is to share their facilities to meet the variations in demand. For example, a school can be rented out to conduct an entrance examination on a Sunday when the school is closed for students. Looking at it from another angle, a facility or equipment can be obtained on rent as it is not feasible to purchase new equipment that would not be used at other times. For example, a caterer might rent large cooking utensils instead of purchasing them if he lands a big contract for a short period.
- **Schedule Downtime during Periods of Low Demand:** Organisations should schedule their maintenance, repair and renovation activities during periods of low demand so that the equipment and facilities can be stretched beyond capacity during high demand periods. This approach should be employed for workers also by giving them time to relax. For example, an airline can conduct its maintenance work when the fleet is idle so that they can be ready for extra load during peak demand periods.
- **Cross-training Employees:** This involves training employees to perform other tasks apart from their routine tasks, so that underutilisation of labour does not take place in the organization. These multi-skilled employees can be shifted to tasks that are in high demand. For example, training an employee in sales and marketing will help the management to shift his services from HR to sales during periods of high demand.
- **Modify Facilities or Move Equipment:** Facilities can be modified in an innovative manner during peak/slack demand periods. For example, during slack demand periods, swimming pools at hotels can be used as a facility to coach people in swimming. On the other hand, some equipment can be moved from place-to-place to deliver the services at the consumers' convenience. For example, mobile banking enables a customer to continuously deal with the bank with the help of a mobile phone. Organisations are inventing and adopting novel ideas and concepts to align demand and capacity in these competitive times so as to reduce their costs and maximize their benefits. Refer to example the novel concept of COD to understand one such new concept, called 'Capacity on Demand' (COD).

For example,

'The Novel Concept of Capacity on Demand'
<p>'Capacity on demand' (COD) is an innovative concept that has emerged in the IT industry which can help organisations to avoid the costs of storing additional capacity by utilising it. This concept provides the facility to receive and pay for equipment as and when needed by the company. This helps the company to avoid storing excess capacity that might not be useful for a long time or to avoid falling short of capacity when needed by the organization.</p> <p>'Capacity upgrade on demand' and 'on/off capacity on demand' are the features of the COD concept. 'Capacity upgrade on demand' helps an organization receive a 24-processor computer server initially while paying only for the capacity it requires say, a 16-processor server. When the organization needs more capacity, it can contact the vendor and get the activation codes to switch on the additional capacity. On the other hand, 'on/off capacity on demand' allows an organization to turn on the capacity when it requires and turn it off when it doesn't, thus, including an element of flexibility and saving on cost and time. Both the above features are advantageous as they involve flexibility and the speed to acquire additional capacity.</p>

‘Memory on demand’ is another tool that enables a customer to install features with memory capacity that is not used now and can be activated on the multiples of 4GB according to the customers requirements. Another tool is ‘standby storage on demand’ which offers terabytes of storage capacity to customers when their requirements increase.

Other benefits include addition of extra capacity in a cost-efficient manner without any delay or disturbance in the day-to-day operations. Further, it improves operational effectiveness, employee productivity, and customer service.

Creating a Demand Inventory

Unlike products, supply of services cannot be inventoried due to their intangible and perishable nature. You can imagine an inventory of automobiles or textiles, but can you imagine an inventory of banking services or hospitality services? However, it is possible for an organization to create a demand inventory of services either by requesting customers to wait or by providing them with a reservation system. Let us now discuss these two approaches in detail.

Queuing System

Queuing means to ‘wait in line’ and this situation arises when demand exceeds capacity forcing customers to wait till their turn comes. An organization should find the fundamental causes for queuing and employ strategies to reduce the phenomenon and the waiting time for customers. This involves a lot of information collection regarding the waiting period, bottlenecks in service processing, lapses in delivery systems, periods of peak demands, etc. Organisations can adopt the popular first-come first-served approach to keep customers satisfied. For example, patients at a dentist’s clinic are attended to in the order in which they arrive at the clinic. However, this concept is not applicable for all services. Therefore, some organisations use market segmentation and design strategies based on segmentation to tackle the problem of waiting. The following are some of the strategies:

- **Urgency of the Service:** Service organisations first offer their services to people who need them the most and later to those who can afford to wait. This approach is most applicable in hospitals where patients with serious conditions are treated first.
- **Duration of the Service Transaction:** Some service businesses offer ‘express lanes’ for customers who require fast transactions. For example, in India, customers who need a passport immediately can pay an extra fee at the passport office to reduce the transaction time.
- **Special Clients:** Customers who bring in more business or regular business are given priority and special treatment by service providers. For example, when a corporate firm ties up with an airline for the business travel of its employees, the employees of that organization would get special treatment from the airline as the organization is a big contributor to their business.
- **Paying Premium Price:** Certain customers are willing to pay more to save on their time. Therefore, these customers are to be served separately to reduce their waiting time. For example, speed and convenience are essential for a business traveller. Therefore, companies do not mind spending a higher amount on the travel and stay of their executives during peak business periods.

Psychological Considerations in Waiting

Service organisations often tend to ignore the feelings of customers when they are kept waiting. However, this is an important aspect as disappointed and frustrated customers may opt for a competitor’s service. The following principles were proposed by David Maister in his article, “The

Psychology of Waiting Lines”, to provide more insights into ‘waiting’ for both customers as well as service providers.

- **Unoccupied Time Seems Longer than Occupied Time:** Therefore, service organisations keep their customers busy during the waiting period by offering some activities. For example, some restaurants provide puzzles on their table mats to occupy their customers, till the order arrives.
- **Pre-process Waits seem Longer than in-process Waits:** Customers perceive the waiting time to be less when they are involved in any activity related to the service during their waits. For example, filling up a bio-data form while waiting for an interview keeps the candidate relaxed as he feels that the process has already been initiated.
- **Anxiety makes the Waiting Period seem Longer:** Often, customers become anxious when they don’t know how long they have to wait. They might also feel frustrated because they assume that the service personnel have completely forgotten or ignored them. For example, the wait at a doctor’s clinic would seem longer and more frustrating than the wait at a theatre. Therefore, organisations should inform customers about the duration of the wait before hand to reduce their anxiety.
- **Uncertain Waits are Longer than Known, Finite Waits:** As discussed in the above point, customers should be informed about the length of waiting in order to reduce their anxiety. Thus, customer dissatisfaction can be reduced. Otherwise, customers should be informed on their present position to avail the service. For example, regular announcements at an airport on the delayed flights and their timings will reduce the anxiety and frustration of the waiting passengers.
- **Unexplained Waits are Longer than Explained Waits:** People are more patient when they are given the reasons for waiting. For example, when a fitness expert keeps his clients waiting at this gym, he can make the wait more tolerable by informing them that he’s caught in a traffic jam or that his car has broken down. On the other hand, if no reasons are given then his customers become less tolerable of the uncertainty regarding the wait.
- **Unfair Waits are Longer than Equitable Waits:** When customers perceive that they have been treated in an unfair manner and that they have waited longer than other customers, they would be disappointed and irritated. Therefore, if some customers receive priority over others, the service personnel should explain to the other customers, the reason behind breaking the queue and serving them first. The best example is of a hospital or clinic where patients with serious problems are treated first though other patients have been waiting for a longer period.
- **The more Valuable the Service, the Longer will People Wait:** Customers who are in queue for a high-value service will wait for a longer time more patiently. For example, an enthusiast will willingly wait for a long time in queue to get tickets for his favourite movie. Similarly, a customer at a five-star hotel would wait longer for his food to be served than he would normally do in a small restaurant.
- **Solo Waits Feel Longer than Group Waits:** Customers find waiting less tedious if they are in the presence of other waiting customers. While waiting in a group, their attention is occupied by the activities of the other people in queue. The customer also feels that he is not alone and there are other people waiting with them. For example, a customer waiting for the delivery of a pan pizza alone might feel that the time taken is longer when compared to the same person waiting in the company of other people.

- **Physical Discomfort makes Waiting Feel Longer:** If the waiting area is not clean or comfortable, then customers perceive the waiting time to be longer than it actually is. For example, waiting in a sofa in an air-conditioned room would be easier than waiting on a hard bench in a poorly ventilated room.
- **Waiting Seems to be Longer for New or Occasional Users:** If a person, who usually travels by air, decides to travel by train and the train gets delayed, he might find the waiting period longer than others who usually travel by train and are accustomed to such delays.

Reservation Systems

This approach helps service organisations to spread demand and avoid unequal demand situations. This system ensures that service products will be ready for delivery when customers arrive at the place. For example, customers prefer reserving movie tickets through the internet or the telephone and reaching the theatre just in time to collect the tickets and watch the movie. This helps customers escape the difficulties of standing with uncertainty in a long queue for the tickets. In addition, reservation systems also help to shift demand to slack periods. However, service providers face certain problems when they use reservation systems. Some people may not show up after reserving the product. Some organisations adopt the system of overbooking to solve the problem. However, the success of this method depends on the accuracy in predicting the percentage of people who may not show up. In case of inaccuracy, customers may face a problem due to non-availability of service. To prevent this, instead of overbooking, some organisations charge a fee from the customers who fail to show up. This helps the organization cover losses due to unutilised capacity. For example, the railways charge a cancellation fee when a customer decides to cancel the ticket.

The mantra in question is the 4-M approach. This mantra breaks down the process of service brand management into managing of four specific attributes. This makes the planning, implementing and evaluation of any marketing scheme relatively simple and straightforward.

The 4-M approach centres on the four basic elements that a service provider must manage for branding services effectively. In a nutshell the 4-M approach involves:

1. **Managing Egos:** People always react negatively when they perceive a threat. Also, research has shown that more than the physical threat; it is threat to one's sense of self-one's ego that elicits the most negative response. Thus, managing egos is important in maintaining healthy and positive relationships with the company's customers both internal as well as the external. Only if the internal customers (employees) feel safe and do not perceive any threat to their egos, will they provide superior service to the external customers.
2. **Managing Perceptions:** Brands are not static but are continuously evolving and changing with changing customer perceptions. Thus, a brand is not simply the promise of said quality but is in fact a manifestation of consumer perceptions of that promise whether they see it as useful or not, truthful or not, consistent or not, etc. Thus, managing perceptions of both internal and external customers is crucial in branding services.
3. **Managing Attitudes:** What people think about you matters! In any service, people are the walking billboards of the company. As primary service providers they interact with customers directly to deliver the service. What they think about the company is invariably reflected in the service they deliver. Thus, managing their opinions is critical in branding services. Also, each satisfied customer can direct another ten prospects towards your service. This word-of-

mouth publicity which is unique to the service industry can only be leveraged if your customers think highly of you as a service provider.

4. **Managing Awareness:** Goods have the advantage of ocular presence and physical existence. This tangibility helps consumers to first experience the product through the various senses, build a perception about the same and then decide to buy or not. However, in the case of services, the intangibility of the service causes the customer to buy the product and then decide whether it appealed to their senses or not. Branding services therefore becomes extremely tricky since there are very few ways of creating brand awareness and conveying the brand promise to the customers. Nevertheless, managing service awareness, though challenging can be achieved using physical evidence and media. Physical evidence refers to the material touch and feel factors that accompany the service and these are important in conveying the brand promise to the customers. Media on the other hand, is extremely useful in branding services by creating brand awareness.

A moment of truth is referred to as the customer's encounter with a service. Each moment of truth influences customer perceptions and opinions about the service. Branding services ensures that these moments of truth become moments of reliance and not moments of regret.

Brand is highly valuable for services that don't have any physical characteristics the consumer could look at, touch and assess. In service industries often the companies name is used as a corporate family brand for all services offered. This approach allows to transfer the reputation and fame of one service to others. In addition it allows to transfer the personality and the created physical evidence of the brand to all services. This is especially important since it is much more difficult to give personality and evidence to services than to goods. In the accounting and consulting industry there is a growing trend to exploit and further develop the existing brand values of the big names. These brands are featured by a homogeneous set of messages, ideas, values, visual aids and communication tools. With these efforts the organisations aim to rise awareness of themselves and the variety of services offered, to improve their market position and to attract qualified people.

These certain features of a brand grow out of a complex set of added values that can comprise of history and tradition, additional services, marketing messages, quality, popularity of the product amongst a certain group of users (status) and others. These basis's of a brand perception prove that a strong brand cannot be established over night. The development of a brand takes time, strong financial marketing muscle and good marketing skills such as:

- Insight into customer needs,
- Ability to offer products or services that meet those needs,
- Creativity to produce exiting and compelling advertising,
- Ability to communicate differentiation in a way that customers understand and that motivates them. (Court 1997).

Benefits of a brand for

Sellers	Customers
<ul style="list-style-type: none"> ● Identifies the companies products, makes repeat purchases easier ● Facilitates promotion efforts 	<ul style="list-style-type: none"> ● Is more forgiving of mistakes ● Helps identify products

<ul style="list-style-type: none"> • Fosters brand loyalty – stabilizes market share • Allows to charge premium prices and thus to get better margins • Allows to extend the brand to new products, new markets and to new geographic areas • Can communicate directly with the customer, reach over the shoulder of the retailer • More leverage with middlemen • Is more resistant to price competition • Can have a long life 	<ul style="list-style-type: none"> • Helps evaluate the quality of a product • Helps to reduce perceived risk in buying, provides assurance of quality, reliability, etc. • Is dependable (consistent in quality) • May offer psychological reward (status symbol) • “rout map” through a range of alternatives • Saves customer time • Is easier to process mentally
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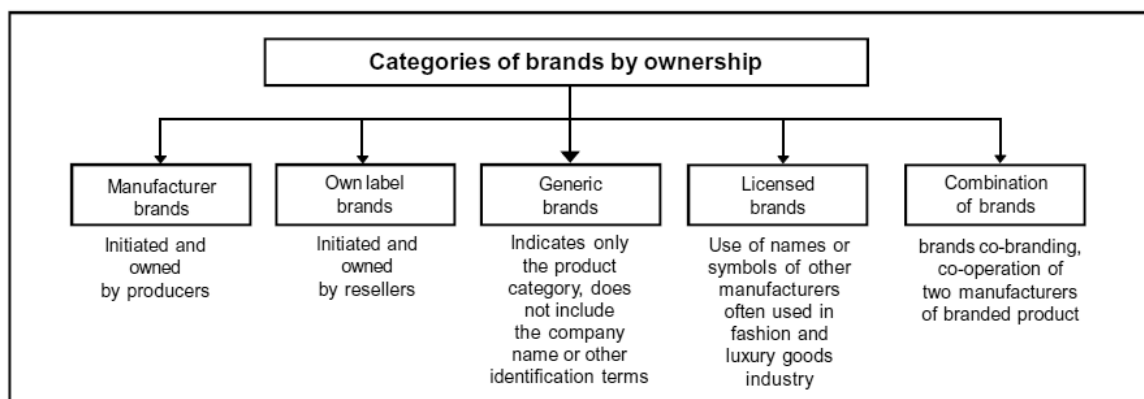
Without this process you do not have a brand but only a name and a sign for a product.

Brands have benefits for both, the brand owners as sellers and the customers:

With this potential a brand can offer an important competitive advantage for a seller who has decided for a differentiation strategy. Even in markets with many similar products or services a brand can provide some sort of uniqueness to a certain product. Depending from the strength of a brand the branded product thus can be positioned towards a more monopolistic situation. With all these characteristics a brand is important in an organisations marketing- mix. Although it is basically a certain feature of the category “product”, it influences every component of the marketing-mix:

- The product gets a higher value in the perception of the customers.
- This influences the pricing policy in the way that often a premium can be charged.
- The promotional strategy and mix will be different because it is more focused on the brand than on the individual product. For instance, the introduction of a new product under a well established umbrella brand requires a very different promotion campaign than the introduction of a new brand or an unbranded product.

The decision for the place and the marketing channel is influenced because a branded product with a higher perceived value might be placed in an environment that is well related to the brands personality, e.g., gourmet shop vs. food department in a supermarket.



FOUR KEYS TO LAUNCHING YOUR SERVICE BRAND... THE RIGHT WAY

It's quiz time. Match each of the following consumer brands on the left with the word that best describes it on the right:

Apple	Reliable
Volvo	Different
FedEx	Safety

If you matched Apple with "different"; Volvo with "safety"; and FedEx with "reliable", then you are correct! Pretty easy? It should be. After all, they have spent hundreds of millions of dollars associating their companies with these words. These words represent the end of a comprehensive process that establishes what every good consumer product company relies on; its brand.

Brand is paramount in the product arena. It creates awareness, drives perception, and improves desirability. Brands with top-of-mind awareness have higher perceived value, which allows charging higher price points.

Many service companies, however, have not embraced brand, because they believe it to be largely the domain of product companies. But many of the same basic marketing principles apply: brand drives perception, preference, top-of-mind awareness, higher fees, and so on. So, why can't service firms reap the same benefits?

They can, when branding for a service firm is done right. In order to brand your service firm the right way and take advantage of the same benefits that product companies receive from great branding, there are four key distinctions between product and services branding strategy that you need to be aware of.

Don't Mass Market To Your Target Market

Product companies sell to the masses through large scale advertising efforts. Following in the footsteps of these companies, many service firms, when attempting to build their brand, start advertising to the masses as if they were selling Wrigley's Spearmint Gum or Coca-Cola. But for a service brand, this is a waste. It's not targeted enough, and it costs too much, given the return that it provides.

The dynamics of brand implementation are just different for service companies. Service firms need consistent articulation of their value proposition across all touch points of the marketing and sales process.

While catchy jingles during prime-time TV might work for a product company, they are simply inappropriate for service firms. But the right marketing programme that "touches" your prospects regularly with highly targeted messages will increase awareness and recognition, so the next time you call to schedule a meeting, they're more likely to take it.

Focus On Relevance Over Differentiation

Differentiation is important to product companies. Most brand models (and business schools) argue the need to differentiate. But it is a rare service brand that can stake the claim to categorical

differentiation. Let's face it, many service firms offer similar services. As such, it is difficult to own a unique market position. So, forget about those product oriented, one-word descriptions.

Instead of attempting to be amazingly different from the rest, focus on being relevant. Specifically, relevance as it pertains to the client. The ideal service brand merges the needs, wants, and desires of the client with the character and values of the company.

The key lies in creating a space where customer needs meet company essence, an ideal combination of rational and emotional attributes that apply to both groups. This common ground approach develops a brand that not only resonates with the client by delivering what is important to them, but also develops a brand that is genuine, appropriate, and defensible by the company.

By staking a claim for what you stand for, communicating how you help your clients succeed, and communicating how reliable you are in doing this, you'll develop a unique identity. Most service firms don't have the stick-to-it ability to get this far, but if they do, they'll stand out in the market.

Worry About Growing Revenue, Not Market Share

Product companies are taught that they must be number one or two, in terms of market position, to be successful. Service brands should concentrate on growing revenue, not gaining market share, as product companies do.

In a service industry, whether it be accounting, law, architecture, or consulting, even local markets are usually fragmented and crowded with many successful firms generating considerable revenue from like-services.

Instead of concerning yourself with your position in the market, focus your efforts on improving the bottom line.

Help Your People Be Your Brand

Service firms do not have a tangible display of products that you can see, touch, and test out before deciding to purchase. As a service firm, your face to the world, what carries your brand most is your people. As such, do not underestimate the internal components of brand development.

To create a collaborative culture, communicate your brand message to the troops so that each individual becomes a brand ambassador. This helps to ensure that every sales call, every client interaction, and every elevator conversation delivers the brand as intended.

Don't attempt to be Big Brother, but do provide a rallying point for the entire organisation, because "speaking in one voice" is far more important for service firms who rely on direct, one-to-one interaction with clients.

What Is This Really All About?

A successful brand is really about a client-centric approach tied closely to the firm's business strategy. Even in its simplest form, brands offer tangible benefits to the vast majority of service firms. So, think strategically, roll up your sleeves, and you can expect the following out of a well developed and implemented brand:

- A genuine and defensible market position
- Improved external awareness, perception, and desirability
- The development of a collaborative internal culture

- Alignment and integration of all messaging
- Revenue growth
- I'll add one final note about branding: your marketing materials are important, but don't go overboard.

Consumer brands focus on their position in the market and differentiation, using the pretty designs of a brochure, website, or advertisement to play a large role in driving their brand and growing their market share. But for service brands, good design is just one supporting part of success. We must take a fundamentally different approach than consumer brands to attain the same results.

What matters is having a process that drives revenue growth over the long term; the pretty pictures are just along for the ride. So, learn from Apple, FedEx and Volvo. Adopt the idea of brand, but apply it to the particular needs of service firms.

□ A powerful brand is much more than a logo and tag line. ...And it is no substitute for a good product or service – it can't make good products out of bad products!

However, these days just having a good product is not enough. A carefully developed brand strategy will enable you to transform your products and services into powerful brands, create new brands for your target markets, and position your brand in the competitive marketplace.

Very simple, for branding to maximize your market share and revenue, a brand has to:

- Appeal to a high revenue potential need or market
- Be unique
- Be consistent
- Be a powerful motivator for potential and existing customers

Our brand strategy services help you to develop a brand strategy, hand-in-hand with some of the best branding, marketing and strategic professionals in Asia today. Our brand strategy services are led by Dr. Paul Temporal, author of *Branding in Asia*, and the leading expert on branding in the region, and Rod Davies, Principal and Research Director of Orient Pacific Century.

We will lead you through the steps in brand strategy from developing a brand platform, creating a brand benefit statement, enhancing brand image, building brand equity, focusing on brand attributes with competitive advantage, ensuring brand consistency, developing a communication plan and strategy and promoting and advertising the brand.

Using your own assumptions on the perception of your brand can endanger a carefully developed brand strategy right from the start. Real world perceptions of existing or proposed brands from existing or prospective customer groups are critical to testing and developing new brands. Our brand research uses qualitative and quantitative research techniques specifically developed to elicit the data required to build powerful brands.

A successful brand strategy also has to be integrated in the organization from the board level to senior management, promotion and advertising, customer service, and product/service design. We will also ensure this occurs.

Developing a brand that will fire the imagination of your market, customers, and staff is crucial in the Information Age. That is why our publishing division publishes *Branding Asia dot com*,

featuring free access to columns, discussion, and articles on developing brands for Asian markets and organisations.

Feel free to contact us by live chat, e-mail, or personally to discuss how we can work together.

Internet Branding

Brand Your Online Presence

We find solution into the problem and not outside it. Every problem has its solution hidden inside it. If you identify your problem half your job is done. All that remains is digging out the solution and applying it. We do it for you!

If the internet is not working for your business, we are there for you. We help you identify the crucial missing link(s) that are keeping you from capitalizing on the booming online market.

We define your business objectives, research your online market and create a strategic plan customized for your particular needs and most importantly, implement it. We present a well defined strategy for your business over the internet media.

Identify Your USP

Every product/service, however, similar to thousands of other competitors has its own Unique Selling Proposition (USP) and needs a special approach to reach out ahead of others to its target market.

We understand your particular requirement(s) and give your product/service just the kind of positioning and branding presence it requires to create an impact in the online media.

For all your online marketing needs, you don't have to look beyond us. Think of your marketing targets and leave the achieving to us.

We will ensure that the internet works for your business while you focus on your core business.

Branding Makes the Difference

What makes a visitor tell her friends about your website? She may have liked the design, presentation, innovative ideas and content. We help your site to make an impact on your target customers.

We believe that every website can be a brand over the internet. Moreover, the brand image your website creates must reflect and identify your corporate identity.

Every time someone sees your website, reads it, hears it, your brand is enhanced. Your brand defines how you are different, and how that difference matters to customers who may buy your products and/or services.

Brand Recall Makes Your Customers Come Back for More

Ultimately, brand value is judged by what impact your website and online campaigns create that make customers buy your products/services, not once but repeatedly. If your visitors are not able to recall your website after buying from it, you haven't created a brand yet. No worries! We help create brands that rank high on recall and ensure repeated sales.

Our creative branding strategies are much ahead of traditional branding strategies many of which have now outlived their use.

With Web 2.0 turning the internet into one massive platform of collaboration and communication between users, putting immense power into their hands to control, share and use data, internet branding has now acquired new layers of meaning to it.

The design, colour, and content for your website and web marketing instruments are all chosen meticulously to enhance your brand equity, attract higher traffic, and generate sales.

What Else Do We Do?

We also provide effective content development services. The success we have achieved at creative marketing and multimedia reflects our sound design principles and creative spirit that has taken us so far.

Or if you already have a website which is not taking you anywhere, its time you gave it a fresh look. We will test it for web usability to find out just where your website is failing to score.

We will make appropriate changes to the website to improve conversions or redesign it completely (if required). This time it's bound to make business for you!

Let the work speak. Check out our web development portfolio.

Problems and solution through Service Branding (internet)

Problem domain:

- Your product or service has to be uniquely positioned in the market for your customer to recall your brand and in effect, generate revenue for your company.

Solution:

- With a strong understanding of your competitive landscape and your target audience, internet will work with you to create the branding for your media campaign that differentiates you from your competition in the most effective way.

Media Research/Statistics

Problem domain:

- Your market needs to be thoroughly researched with the accurate statistics of your competition before you do that important product or service launch.

Solution:

- Internet undertakes research and collates statistics based on your requirements and provides you exhaustive analytical reports to help launch an effective marketing campaign.

Advertising and Creative Conceptualization

Problem domain:

- Creative concepts play an important role in your campaign. The key differentiator between your product and your competitor is the perception that your TV commercial, online banner or print advertisement portrays to your customer.

Solution:

- Internet brings an edge to your campaign through creative concepts that most aptly bring out your message to your audience.

Media Production Consistent with Branding

Problem domain:

- Executing your campaign requires various technical resources and know-how which could be as simple as building a website to as complicated as producing a television commercial.

Solution:

- With its exhaustive database of freelancers of international quality, internet organises and executes your media production activities to best fit within your campaign schedule and your organisational quality standards.

Media Marketing and Planning

Problem domain:

- Planning your media campaign is a key part of your budget spending activities. For example, putting up a hoarding where your target audience is primarily active would make a huge difference to the value received to the money spent ratio.

□ *Solution:*

- Internet plans and customizes your media spend to effectively meet your campaign requirements.

Media Buying

Problem domain:

- Negotiating with media channels to acquire the best position for your message is a daunting task and the correct position at the best price is an important decision for any media campaign.

Solution:

- With its preferred relationships with most South Asian media channels, internet negotiates on your behalf and ensures your media spots are played at the best possible positions.

Campaign Monitoring

Problem domain:

- Monitoring is an important aspect of any marketing campaign to understand whether the requirements set by the campaign are being met.

Solution:

- Internet monitors your campaign closely and ensures the execution is as per agreed terms with the media partners.

Campaign Reporting and Analysis

Problem domain:

- How is your campaign doing? Analyzing your campaign ensures that you can tweak it to cater better based on the results.

Solution:

- Internet provides you detailed weekly/monthly analytical reports through your website hits, call monitoring and campaign code analysis and makes recommendations based on the ongoing results.

Strategy and Marketing

- In an increasingly cyber savvy world, it is critical today to have an online strategy in place for your products and services. Internet offers the following online services for its clients:

Web Design and Marketing

Problem domain:

- Your website is your face to the world. It is important to ensure that you reach out to your customer and your customer responds back in the most efficient and effective way.

Solution:

- Internet designs your website to ensure that your services are marketed online in the most effective manner. We also install analytical software to understand the behaviour of your online visitors.

Search Engine Optimization (SEO)

Problem domain:

- Search engine optimization is the process of designing your website in a way that ensures it is at the top of the list during customer searches on major search engines like Google, Yahoo or MSN.

Solution:

- Internet uses a 24×7 real time monitoring mechanism to ensure that your website is optimized.

Search Engine Marketing (SEM)

Problem domain:

- Search engine marketing is the process of bidding for strategic and most common keywords used by your potential customers in their respective favourite search engines to assist them to find relevant businesses offering services that they are looking for.

Solution:

- Internet uses a 24x7 real time monitoring mechanism to ensure that the most competitive and strategic keywords are bid for to ensure maximum visibility and click through by potential customers, thus ensuring maximum return on investment.

PR

Event Planning and Management

Problem domain:

- Your media campaigns have to be complemented with participation in events to let your customer have a feel of your brand.

Solution:

- Internet's experienced event managers will work with you to plan and manage your event that complements your media campaign.

Sponsorships*Problem domain:*

- If you are conducting an annual event for your customers and would like to bring on sponsorships to reduce your overheads.

Solution:

- Internet works with a lot of corporate clients and is experienced in creating sponsorship packages based on the reach of your event to attract appropriate sponsorships.

Press and Online Articles*Problem domain:*

- It is highly effective to have articles written and published strategically to augment your marketing campaign.

Solution:

- Internet will create your articles and publish it in press and online media.

How can a bank use branding strategies to overcome the challenges of the unique characteristics of services?

Branding can help a bank overcome problem associated with service intangibility by using strategies like trademark protection, brand name and brand mark design because these symbols and logos enable consumers to identify and distinguish the firm's offerings from its competitors.

An effective brand name, pictorial or even colour design can help a bank conquer display and promotional difficulties because they vocalize and visualize the company's services, allow for differentiation and development of physical presentation of the services they provide....also word-of-mouth helps to build brand reputation thereby increase the tangibility of services. Challenges of inconsistency are standardization and quality control. Strategies can use technology development. For example, banks invented the ATM machines and internet banking that provides consistent, standardized transaction service. Inconsistency can also be reduced through training because employees will be able to rely on specified and standardized policies.

REVIEW QUESTIONS

State Whether the Following Statement are True or False

1. The price is the amount a customer pays for the product.
2. Promotion: Represents all of the communications that a marketer may use in the marketplace.
3. Physical evidence is the element of the service mix which allows the consumer again not to make judgments on the organization.
4. The key to success in direct mail is to reach out to the wrong people.
5. A 'product' can be defined as an idea, a service, or a good that involves a mix of tangible and intangible elements, which aim to satisfy consumers.
6. The core benefit of any product is to satisfy the basic needs of a customer.
7. The pricing strategy developed by a company can either help the company reap the minimum profits or throw it out of business.
8. The pricing strategies of a firm depend largely on the objectives of the firm and the way it wants to position itself in the market.
9. Cost-based pricing can be better understood with a basic understanding of direct and indirect costs.
10. Service providers should not get so involved in the promotional activity that they ignore the other elements of the marketing-mix.
11. A company's communication strategies help it project a desired image and position itself in the market.
12. In situations where direct marketing of services is feasible, service providers use intermediaries to market and sell their services.
13. The primary function of this category of personnel is to interact with customers and offer them quality service.
14. The core competence of a service organization lies predominantly in the skills of its service personnel.
15. A process outlines the procedures and methods to be followed to produce and deliver a service.
16. The companies have learnt to 'position' themselves well in their customers' minds and differentiate themselves from their competitors.
17. The concentrated marketing approach, also known as the single-segment strategy, aims to serve limited segments in the total market.
18. Marketers can design products or services that appeal to the personality types of their customers.
19. Market segmentation helps in the clear understanding of customer needs and in keeping track of changes in customer expectations.
20. Differentiated marketing approach, aims to serve limited segments in the total market.
21. The first step towards managing demand in services is to understand and sketch a pattern of demand variation.

22. Service firms need consistent articulation of their value proposition across all touch points of the marketing and sales process.
23. Even in its simplest form, brands offer tangible benefits to the vast majority of service firms.

Ans: 1. True, 2. True, 3. False, 4. False, 5. True, 6. True, 7. False, 8. True, 9. True, 10. True, 11. True, 12. False, 13. True, 14. True, 15. True, 16. True, 17. True, 18. True, 19. True, 20. False, 21. True, 22. True, 23. True.

Fill in the Blanks

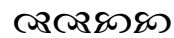
1. The term “marketing-mix” was first used in _____.
2. Elements of the marketing-mix are often referred to as ‘the four Ps _____.
3. An essential ingredient to any service provision is the use of appropriate _____.
4. The service marketing-mix involves analyzing the _____.
5. “Consistent + courtesy + common sense + professional dignity = _____.
6. Service product decisions can be taken at various stages in the business cycle of the _____.
7. The pricing of services is different from the pricing of goods in many _____.
8. _____ are borne by the customers either at the time of buying the services or at the time of consuming them.
9. The location of a service firm is an important aspect of service _____.
10. An effective service delivery requires an _____ of the channels used for distribution.
11. _____ refers to the design of the service outlet.
12. _____ approach aims at serving all the consumers by offering a single product or service.
13. Demand is not an independent variable that operates in _____.
14. _____ can be expanded or contracted to suit the demand patterns.

Ans: 1. 1953, 2. Product, Price, Place and Promotion, 3. staff and people, 4. 7 Ps, 5. effective client, 6. service provider relations, 7. Ways, 8. Psychological costs, 9. Distribution, 10. effective management, 11. Layout, 12. Mass marketing, 13. Isolation, 14. Capacity.

Terminal Questions

1. Explain in detail insight service marketing-mix?
2. Explain in detailed “service product levels”?
3. Explain in detail key characteristics of pricing in services?
4. What do you mean by pricing strategies in service marketing?
5. How does a customer assess the value of a service offered by a company in relation to its price? What are the various attributes that create this value?
6. Explain the importance of communication and its types?
7. Explain different types of intermediaries for service delivery?
8. Explain different types of problems faced by service personnel?

9. Explain different types of physical evidence?
10. Explain different characteristics of service process design and Implementation?
11. What are the different steps involved for developing a positioning Strategy?
12. What constitutes a marketer's 'market segment'?
13. Explain in detail requirements for effective segmentation?
14. Explain in detail process of marketing segmentation?
15. Explain in detail different strategies to match demand and capacity?



Chapter 3

Managing Quality Aspects of Services Marketing

Structure:

- ☞ Improving Service Quality and Productivity
- ☞ Objectives of Service Quality
- ☞ Introduction to Service Quality
- ☞ Customer Retention through Quality
- ☞ Link between Service Quality and Productivity
- ☞ Defining Service Quality
- ☞ Dimensions
- ☞ Measuring Service Quality
- ☞ The Gaps Model of Service Quality
- ☞ Measuring and Improving Service Quality
- ☞ Service Productivity
- ☞ Service Recovery
- ☞ Complaint Handling
- ☞ Review Questions

IMPROVING SERVICE QUALITY AND PRODUCTIVITY

Organisations, in the past, offered a product or service to the customer and their responsibility ended with that. But now with the customers becoming increasingly aware and the vast amount of information available to them from various sources, their needs and expectations from service providers have increased dramatically. Customers select a service provider depending on several parameters, of which customer-service is the most important. They observe and analyze various factors when they accept a service from an organization the quality of core-service offered, the range and quality of supplementary services, reception by the service personnel, the time and effort invested in using the service, and any opportunity costs that were involved. All these factors will be considered by a customer while rating and choosing a service provider. Therefore, service providers who ignore these aspects of customer-service fail to create a positive impression on the customer and are rated as poor service providers. This leads to a reduction in repeat customers and ultimately affects the

profitability of the organization. If the organization does not take the necessary corrective steps, its survival itself might be threatened. Therefore, organisations worldwide are emphasizing on developing and managing an effective customer-service function. In this chapter, we will define customer-service, ways to improve it, and the role of technology in improving it. We will also discuss the customer-service management cycle, supplementary services, how to enhance customer-service through an improved service delivery process and the steps to implement a customer-service programme in an organization.

Customer-service Definition

According to the ACA group, “customer-service is the ability of an organization to constantly and consistently give the customer what they want and need”.

Christopher Love-lock defined customer-service as follows:

“Customer-service involves task-oriented activities, other than proactive selling, that involve interactions with customers in person, by telecommunications, or by mail. This function should be designed, performed, and communicated with two goals in mind: customer satisfaction and operational efficiency”.

Improving Customer-service

How can a service provider win over customers using customer-service? He should strive not just to satisfy customers but to exceed their expectations by delivering excellent customer-service. There are, however, a few things that the service provider should realize to offer high standards of customer-service. A service marketer should basically recognize that it is not just the point of contact with the customer that has an impact on customer-service, but every aspect of business. Further, a service firm should improve the core service as well as the supplementary services, to improve the total service experience of the customer. Some of these services are offered prior to the transaction, some during the transaction and a few, after the transaction is complete. These accompanying services are accordingly categorized into pre-transaction, transaction and post-transaction services. Sometimes, they may also be classified as pre-contact, contact, pre-delivery, delivery and post-delivery services.

For example, say a person has to go to a diagnostic lab for a blood sugar test. He may call up the receptionist for details like timings of the lab, time taken for the test, etc. This is pre-contact service. He then goes to the lab and the service personnel there take his blood sample for the test. This is a contact service. The customer pays the bill and may enquire about the time at which he can collect the report. The service personnel will answer the query, take the money and give the receipt. This is the pre-delivery service. The customer comes back at the specified time to collect the report and the receptionist delivers the report. This is the delivery service. Later, the person may contact the lab for some clarification and one of the lab technicians may answer his queries. This is the post-delivery service.

To excel in delivering customer-service, service providers should take the following steps:

Divide the Basic Service into Separate Service Activities: Each core or supplementary service provided by the organizations should be divided into specific service activities/tasks. This will enable the management to set the standards for each service activity, communicate them to its employees and then train them accordingly to maintain the standards. For example, at a restaurant, the basic service is to serve good food to the customers. However, there are separate service activities that constitute this

basic service. For example, the security personnel at the gate opens the gate and directs customers to the parking lot, another assistant at the parking lot helps the customer park his car, an executive at the reception welcomes the customer, the in-charge takes the order for food and drinks, the chef prepares the dishes and a waiter serves the items on the customer's table. The person at the parking lot should take care to ensure that no customer faces a problem in parking or retrieving his car, the reception executive should welcome them with a smile, the in-charge should be courteous and help the customers make the right choice of food and drinks depending on their taste, the cook should prepare the dishes to suit customers' preferences, and the waiter should arrange the dishes on the table efficiently and attractively and serve the customers.

When every employee of the restaurant understands his basic function or role, he performs his job better. In this case, the performance standards can be set for the reception executive, the chef, the waiter, etc., and they can be trained to match these standards. This helps the organization deliver excellent customer-service overall.

Conduct Periodic Surveys: Conducting periodic surveys of customers and the employees will help an organization understand customer expectations better. It will also enable the management to understand the satisfaction levels of customers where existing services are concerned and thereby identify the areas for improvement.

Provide Necessary Infrastructure and Advanced Technology: Good infrastructure and technology enable the employees to deliver high quality services to customers. For example, internet banking helps banks offer convenience and speed of transaction to customers. Advanced technology has made this possible and banks use it as a competitive advantage to offer better customer-service.

Track changes in the External Environment: The management should constantly monitor changes in the external environment, like increased competition, technology changes and change in customers' tastes and preferences to introduce changes in the organization's service delivery processes.

Steps to Implement an Effective Customer-service Programme

The goal of service organisations is to achieve high customer satisfaction because this is what holds the key to customer retention and loyalty. Service organisations can achieve high customer satisfaction only when their service personnel deliver customer-service effectively. An organization needs to take the following steps to implement effective customer-service programme:

- **Place the Right Person in the Right Job:** The management of a service organization should conduct comprehensive recruitment tests and select the best candidate for each job. Different jobs require different skills like technical skills, interpersonal skills, communication skills, etc. Some jobs require a combination of some of these skills. Organizational personnel who interact with the customers directly should be able to withstand the work pressure and control their emotions. So, the management should use some personality tests for assessing the candidates and selecting the right people.
- **Administer Training Programmes:** The management should try to identify the training needs of employees and conduct training programmes periodically to help them hone their skills and excel in customer-service.
- **Service Information Needs of Customers:** Customers also need to be kept informed of any changes made in the service delivery system. An informed customer will know better how to use the service quickly and effectively. This will help avoid delays at the service site and

reduce inconvenience to customers. For example, Electronic Voting Machines were used for elections (2004) in India. Citizens were educated through television and live demonstrations in various constituencies in advance, so that they could cast their votes without any problems on the day of voting.

- **Resolve Problems Quickly and Talk Pleasantly:** Employees should be attentive while interacting with customers. When a customer reports a problem, the front-office personnel should immediately take the necessary action. In case of minor problems, they should initiate corrective action immediately and in case of major problems, they should take up the case with the manager concerned. They should also be tactful in pacifying irate customers. Peaceful customers can be more easily dealt with than aggressive and unpleasant one. Therefore, employees will be subjected to less stress and can respond to more customers if they help their customers calm down. However, employees should also remember that sweet talk alone cannot please a customer for long, and that his problem needs to be solved at the earliest.
- **Standardize Service Delivery Mechanisms:** A service delivery process can be split up into a set of steps that are carried out in a particular sequence to deliver the desired service. Each step should be evaluated to identify the possibility for standardization. All such steps should be standardized and the employees should be trained to carry out the steps quickly in a systematic way and deliver satisfactory service to customers.
- **Fix Reasonable Prices:** A service provider has to price his services reasonably. He should compare the quality and level of the services he offers with those of competitors in the industry and then determine the price of his service. The service provider should constantly monitor the external environment, the existing demand and supply for his services and make changes in the price accordingly.
- **Outsource some Activities:** Service providers should identify the activities that are not an integral part of the core service. If they find that these activities can be performed by external organisations at a low cost without affecting the quality of customer-service, then such non-core activities should be outsourced.

OBJECTIVES OF SERVICE QUALITY

The subject of service quality has aroused considerable recent interest among business people and academics. Of course, buyers have always been concerned with quality, but the increasing competitive market for many services has led consumers to become more selective in the services they choose. Conceptualizing the quality for services is more complex than for goods. Because of the absence of tangible manifestations, measuring service quality can be difficult but there are possible research approaches. Comprehensive models of service quality and their limitations can be studied. Understanding just what dimensions of quality are of importance to customers is not always easy in their evaluation process. It is not sufficient for companies to set quality standards in accordance with misguided assumptions of customers' expectations. A further problem in defining service quality lies in the importance which customers often attach to the quality if the service provider is distinct from its service offers the two cannot be separated as readily as in the case of goods. Finally, issues relating to the setting of quality standards and implementation of quality management should be studied.

INTRODUCTION TO SERVICE QUALITY

Quality improvement and adherence to accepted norms of quality are central to the modern concept of marketing of services. The quality of service delivery results in customer satisfaction and their retention as it reinforces the perception that the value of the service received is greater than the price paid for it. Some important concepts are:

Different Perspectives of Service Quality

Transcendent: Quality = Excellence. Recognized only through experience

Product-based: Quality is precise and measurable

Manufacturing based: Quality is in conformance to the firm's developed specifications

Value-based: Quality is a trade-off between price and value

Modern quality concepts result in better profitability, which is the main goal of all the business.

Quality control has much to do with changing the frame of mind and psychology of the service provider and particularly the front-end and back-end employees actually providing the services. We need to know how this fundamental change in attitude can be brought about.

Traditionally, most service providers have felt that they know all there is to know about the customers and their requirements. This smug or self-satisfied approach needs to be changed.

Development of feedback systems is very essential part of the quality improvement. How this can be used to develop better quality standards is an issue of immense importance. Goal setting and adherence to the goals are both essential to ensure continuous improvement in the quality standards.

CUSTOMER RETENTION THROUGH QUALITY

The focus of the modern marketers has shifted away from a one-time sale to making repeated sales to the same customer. Increasing attention is being paid to medium and long-term perspectives, rather than just the short-term perspective. This has been a major revolution in thinking in the field of marketing. Customer retention usually pays dividends by way of: Lifetime value of the customer. If the customer remains loyal to the company, naturally, the repeated purchases represent a cumulative value which is quite substantial compared to any single transaction. Reduced costs. It costs much more to acquire a new customer than to retain an old customer. Therefore, the focus of marketing has shifted away from the goal of mere customer acquisition to customer retention in order to substantially reduce marketing costs. Benefit from wider opportunities to market more products and services to customers who are already loyal to you. The key differentiator between customer retention is customer satisfaction. Satisfaction results when the customer feels that the value of a service received by him is substantially higher than the price he paid for acquiring the service. Customer satisfaction can be largely attributed to the quality of the service or product. Thus, delivery of high quality service is

crucial to the high service value perception. When the major marketing goal of a company is customer retention, the quality of service delivery is, undeniably, the key differentiator.

Example: From ₹ 600 Cr Big Billion Day Sales during 2014, Flipkart sold goods worth ₹ 2000 Cr during Big Billion Day sale from 13-17 October 2015, which was a successful strategy to execute the sale App only. 50 lks Applications were downloaded before and during sale event.

LINK BETWEEN SERVICE QUALITY AND PRODUCTIVITY

Importance of Productivity and Quality for Service Marketers	
Productivity	
▪ Helps to keep costs down	
➤	lower prices to develop market, compete better
➤	increase margins to permit larger marketing budgets
➤	raise profits to invest in service innovation
▪ May impact service experience (must avoid negatives)	
▪ May require customer involvement, cooperation	
Quality	
▪ Gain competitive advantage, maintain loyalty	
▪ Increase value (may permit higher margins)	
▪ Improve profits	

The approach towards quality has changed quite drastically during the past few years. Previously people thought in terms of quality control. Quality is defined as the ability of the service provider to satisfy customer needs. Customer perception, service quality, and profitability are interdependent values. The idea of control was that the manufacturer decided to find the reasonable number of defects that a customer would accept without demur. The goal of the exercise was to restrict the number of defects in order to be called a high-quality producer. This approach was based on two assumptions:

Other producers under similar marketing conditions would adhere to similar norms of non-compliance or transgression of quality. Thus, the issue of competition driving up the quality was not taken seriously. Live and let live was the motto that most large producers adhere to. The lack of serious quality improvement translates into savings in production costs as elaborate effort for improvement was not done. Almost every customer assumed that the service or product received by them will not be perfect in every respect. Customers took it for granted that luck was involved in receiving high-quality goods and services. Thus, people would avoid cars assembled on Fridays or Mondays. It was assumed that during the pre-weekend phase, when the employees were focused on the forthcoming weekend, and the post-weekend phase, when the employees were physically and mentally tired from their weekend exploits, they paid less attention to work. It was thus assumed that on Fridays and Mondays, nobody would stop the assembly line for just a bolt not fitted at the appropriate place. People preferred cars which were driven from the factory to the dealer's premises rather than carried by trucks to the delivery points. Customers believed that inherent defects were

bound to be uncovered during this pre-delivery phase, and, therefore they would be duly identified and rectified before customer delivery.

The total service quality management [TSQM] emphasizes different policy statements such as the following demonstrate the approach:

Quality is free. It is the non-quality that costs money. Non-quality means that everything is not done right from the beginning. About 35% of the company's costs are due to faults and their corrections. Quality enhancement usually improves profitability by 5 to 10%. This is a sizable jump in the overall profitability. To get a similar increase in profitability with quality improvement, the company will need to increase the turnover by 20 to 25%, which is quite a sizable task.

The costs of the quality improvement are roughly divided into two groups: cost of conformance and cost of non-conformance.

Cost of Conformance

This includes costs incurred to adhere or stick to the existing established standards or norms. This is the maintenance and improvement of the quality.

- Preventive costs: these include staff training cost and costs of the robust design or robustness built into the service.
- Cost of control: to continuously maintain the high quality, it is necessary to carry out surveys and obtain feedback from the customers to ensure that the delivery is as per the planned level of service and quality standards.

Cost of Non-conformance

The non-conformance to the established standards results in additional cost of customer dissatisfaction, complaints and warranty claims. The costs are for replacement, correction or compensation of the faulty delivery of services or goods.

DEFINING SERVICE QUALITY

Quality is an extremely difficult concept to define in a few words. At its most basic, quality has been defined as conforming to requirements. This implies that organisations must establish requirements and specifications; once established, the quality goal of the various function of an organization is to comply strictly with these specifications. Many analyses of service quality have attempted to distinguish between objective measures of quality and measures which are based on the more subjective perceptions of customers. A development of this idea by Gronroos identified 'technical' and 'functional' quality as being the two principle components of quality. Technical quality refers to the relatively quantifiable aspects of a service which consumers receive in their interactions with a service firm. Because it can easily be measured by both customer and supplier, it forms an important basis for judging service quality. Examples of technical quality include the waiting time at a supermarket checkout and the reliability of train services. This, however, is not the only element that makes up perceived service quality. Because services involve direct consumer producer interaction, consumers are also influenced by how the technical quality is delivered to them. This is what Gronroos describes as functional quality and cannot be measured as objectively as the elements of technical quality. In the case of the queue at a supermarket checkout, functional quality is influenced by such factors as the environment in which queuing takes place and consumers perceptions of the

manner in which queues are handled by the supermarket's staff. Gronroos also sees an important role for a service firm's corporate image in defining customers' perception of quality, with corporate image being based on both technical and functional quality. Service quality is a highly abstract construct, in contrast to goods where technical aspects of quality predominate. Many conceptualizations of service quality therefore begin by addressing the abstract expectations that consumers hold in respect of quality. Consumers subsequently judge service quality as the extent to which perceived service delivery matches up to these initial expectations. In this way, a service which is perceived as being of mediocre standard may be considered of high quality when compared against low expectations, but of low quality when assessed against high expectations. Analysis of service quality is complicated by the fact that production and consumption of a service generally occur simultaneously, with the process of service production often being just as important as the service outcomes. Gronroos pointed out that a buyer of manufactured goods only encounters the traditional marketing mix variables of a manufacturer, i.e., the product, its price, its distribution and how these are communicated to him or her. Usually production process are unseen by consumers and therefore cannot be used as a basis for quality assessment. By contrast, service inseparability results in the production process being an important basis for assessing quality.

A further problem in understanding and managing service quality flows from the intangibility, variability and inseparability of most services which results in a series of unique buyer-seller exchanges with no two services being provided in exactly the same way. It has been noted that intangibility and perceived hazard affects expectations, and in one study of a long-distance phone service, a bookstore and a pizza shop service, it was concluded that intangibility had some role in service quality expectations. Managing customers' expectations can be facilitated by means of managing the risks a consumer perceives when buying a particular service.

SERVICE QUALITY DIMENSIONS

Service quality is a perception of the customer. Customers, however, form opinions about service quality not just from a single reference but from a host of contributing factors. Service marketers need to understand all the dimensions used by customers to evaluate service quality.

David Garvin in the article 'Competing on the Eight Dimensions of Quality' identified the following eight dimensions of quality applicable to both goods and services.

These include:

Performance, Features, Reliability, Conformance, Durability, Serviceability, Aesthetics, Perceived quality or prestige

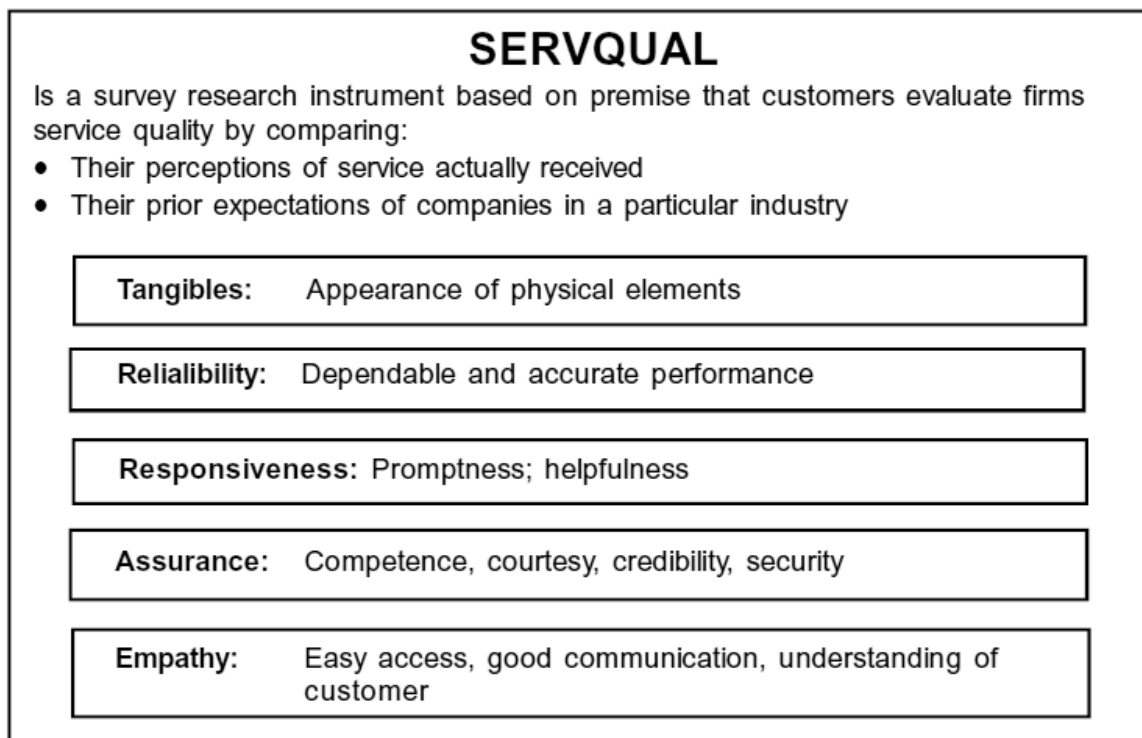
In a further refinement of their earlier factor identification, Parasuram, Zeithmal and Berry have identified the following five dimensions of service quality as crucial. These are:

- (a) **Reliability:** This dimension is shown to have the highest influence on the customer perception of quality. It is the ability to perform the promised service dependably and accurately. Sahara Airlines, an upcoming domestic air carrier within India, has been striving to protect itself as a reliable airline. It hopes to differentiate itself from other airlines Indian Airlines. To protect this reliability, Sahara Airways has a scheme of full refund plus a coupon of ₹ 3,000 to every passenger on delay of flights by more than 59 minutes. When service delivery fails the first time, a service provider may get a second chance to provide the same

service in the phase called 'Recovery'. The expectations of the customer are usually higher during the recovery phase than before because of the initial failure. Thus, the service provider is likely to come under greater scrutiny, thereby increasing the possibility of customer dissatisfaction. The reliability dimension, which ensures timely delivery time after time, helps the service provider to meet the customer expectations fully at the lowest level of service expectation.

- (b) **Responsiveness:** It is the willingness of the service firm's staff to help customers and to provide them with prompt service. The customers may have queries, special requests, complaints, etc. In fact, each customer may have problems of his or her own. While the front-end employee may have been trained or equipped to deliver standardized services, the customers want them to go beyond this limit. It is the willingness to help the customer or willingness to go that extra distance that is responsiveness. Example: A customer calls room service to find out if they would pack a Jain lunch. It is not the hotel's normal policy to cook such specialty and customized meals. However, the customer being very religious minded would be very pleased if the hotel could pack it for him to carry and eat. This may impose some strain on the kitchen. However, the hotel may be rewarded in two different ways if it agreed to provide the meal. The customer would be very pleased with the service and is very likely to recommend the hotel to his friends and acquaintances. In addition, the hotel could charge extra commensurate with the extra efforts. He is unlikely to mind paying more. The second aspect of responsiveness is speedy response to a customer request. When response is delayed customers usually loses interest. Many sales representatives respond on the phone, 'I will call you back'. The call is never returned. The customer draws his or her own conclusion about the quality of service he is likely to receive in the future.
- (c) **Assurance:** It defined as the ability of the company to inspire trust and confidence in the service delivery. It refers to knowledge and courtesy of the service firm's employees and their ability to inspire trust and confidence in the customer toward the company. This dimension is considered vital for services that involve high risk as customers may not be able to evaluate all the uncertainties involved in the process by them. Example: Medical services requiring complex uncommon procedures, sales/purchase of financial securities, investment issues, legal affairs, etc., demand this service quality dimension. There are property developers/builders who provide a list of previous buyers of flats or apartments to potential buyers. The evaluation of construction services is beyond technical capabilities of most buyers. However, the prospective customers are free to call the previous customers. When prospective customers hear from them about the company and its satisfactory delivery, they feel assured and develop a more positive attitude towards the company.
- (d) **Empathy:** It refers to the caring, individualised attention the service firm provides each customer. When service provider puts himself in the shoes of the customers, he may see the customer's viewpoint better. When customers feel that the provider is making his best effort to see their viewpoint, it may be good enough for most. Example: a lady customer with a young child arrives slightly late at the check-in counter and requests the agent for a seat along the aisle and near the toilet. Even if all such seats have already been taken up, the agent and the airline may make even effort to request another passenger to exchange seats and meet the customer demand. The lady passenger would be delighted if her request could be honoured despite the last minute checking in, and even if she does not get such a seat, she would be grateful for their effort.

- (e) **Tangibles:** It refers to physical facilities, equipment, and appearance of a service firm's employees. The job of the tangible and physical evidence of a service is multitasking. When a patient in the waiting room of a clinic sees the doctor's certificate, he becomes aware of the quality of service he is about to receive. If a dental clinic provides patients with clean rubber footwear and freshly laundered bibs or coats before the actual service, the patients and their accompanying relatives or friends will be impressed. A dentist dressed in a spotless white coat is likely to impress, them even further. Tangibles provide the customer proof of the quality of service.



MEASURING SERVICE QUALITY

When evaluating service quality, consumers examine five dimensions: tangibles, reliability, responsiveness, assurance and empathy. Using SERVQUAL to Measure Service Quality

The SERVQUAL instrument was based on the premise that service quality is the difference between customers' expectations and their evaluation of the service they received. The first part of the questionnaire asks customers to indicate the level of service they would expect from a firm in a particular industry. The second part of the questionnaire asks customers to evaluate the service performed by a specific service firm. Gap Theory is the method for calculating service quality that involves subtracting a customer's perceived level of service received from what was expected. SERVQUAL uses 21 questions to measure the five dimensions of tangibles, reliability, responsiveness, assurance and empathy. Through SERVQUAL, firms can measure customers' evaluations of their service performance. For example, if customers consistently give firm low scores for one dimension,

such as reliability, then the firm's management can take steps to improve that particular dimension of their service offering.

Problems with SERVQUAL

Although SERVQUAL is an excellent instrument for measuring service quality, managers must be aware of potential problems with the instrument, as well as with the gap theory methodology on which it is based. An understanding of these problems may prevent service companies from misinterpreting the results and developing inappropriate marketing plans. The SERVQUAL instrument has three potential problems.

First, SERVQUAL measures customers' expectations of the ideal firm in a particular service industry. This may or may not be relevant to the capabilities of a particular service firm or the set of service firms available to a consumer. For example, consumers may indicate that physicians should provide their services at the time they promised. Seldom do patients see the doctor at the scheduled time. No one likes waiting after their appointment time, yet, because of excess demand, patients will continue to wait.

The second problem with SERVQUAL is its generic nature. Since it is not industry specific, it does not measure variables that may be important for a particular industry. For example, in the airline business, on-time arrival is a very important dimension to travelers, but SERVQUAL does not measure travellers' perceptions of this variable.

The third problem with SERVQUAL deals with the gap theory methodology used for measuring the level of service quality. Measuring consumer expectations after a service has been provided will bias consumers' responses. If customers had a positive experience at Blockbuster, they will tend to report lower scores for their expectations, so there is a measurable gap between what they expected and the actual service they received.

Correct Use of Gap Theory

Managers can use the gap theory methodology for measuring service quality performance if precautions are taken to reduce the problems just discussed. If SERVQUAL is used, the instrument should be modified to apply to the specific industry for which it is being used. Additional variables should be added that are relevant and important to customers. When interpreting the results, managers must remember that respondents are comparing their firm with the ideal firm in the industry. To prevent biases from interfering with the gap scores, consumer expectations should be measured prior to the service and service perceptions after the service. Because consumers are affected by advertising and word-of-mouth communications, the time between measuring expectations and measuring the quality of service received should be relatively close.

Service Quality – A Key to Success in the Services Sector “Service with a smile”, “You can count on XXXX for prompt delivery”, “With ABC mobile phones you can reach anyone, anywhere, anytime”, “ZZZ Airlines - we fly you everywhere.” These are some punch lines of ad campaigns that are currently splashed across media print, television and hoardings. How many of us can honestly claim to have experienced this service consistently, day after day, purchase after purchase, transaction after transaction?

Yet, this is the age of the service sector, an era for excelling in quality of service provided. The service sector is growing in spread and depth to encompass all transactions involving buying and selling, be it in the tangible or intangible form.

The examples below underscore how the service sector has transgressed all boundaries.

Companies across the country and the world are seeking to outsource many of their cost centres the resultant surge in service providers like security services, indoor plants and decorative, cleaning and housekeeping and even secretarial services is phenomenal.

Dual-income, nuclear households are getting to be the norm in urban India. In cities like Mumbai, families are experiencing a burning new need more time. Over-stressed with work and travel, they find it impossible to grapple with routine everyday tasks. This has given rise to hitherto unconventional new services. Housewives now make a cool sum with selling idli/dosa batter and homemade foods. Telephonic orders and home delivery are now passed with grocers and vegetable vendors. Supermarkets sell packaged vegetables, which are chopped and cleaned waiting to be cooked. The makeover is apparent even in traditional services like retailing and banking. These service providers have added peripheral services to reduce transaction time and improve service delivery.

Turn to product marketing tangible products like television sets, air- conditioners, microwave ovens and refrigerators, pagers and mobile phone sets and even cars are being sold on the promise of after-sales service. Buyers are not just conscious of the necessity of services after the purchase has been made. They demand it. Having tasted the joys of greater and enhanced services in all walks of life, urban Indians are clamouring for more. They now want an improvement in the quality of service offered. Service quality therefore is the latest buzzword – in corporate boardrooms, the local bania's siesta conversation with his neighbours and in the king's lair – the urban household. How then is the service provider to go about the difficult task of analyzing his business operations for chinks in delivery of quality service? What tool would indicate to him that he has misunderstood his customer? Where would he seek a consultant for rectifying this fatal error?

The gaps model of service quality looks into the gaps in service quality. It is a ready reckoned to service providers to analyze their existing service delivery system and rectify matters before the company has lost the attention of the customer.

THE GAPS MODEL OF SERVICE QUALITY

The Customer Gap: The difference between customer perceptions and expectations. Customer perceptions are subjective assessment of actual service experience Customer perceptions and customer expectations play an important role in service marketing. Customer expectations are the standards if or reference point of performance against which service experiences are compared, and often formulated in terms of what a customer believes should or will happen. For example, when you visit a fast-food restaurant you expect a certain level of service, one that is considerably different from the level you would expect in an expensive restaurant. The sources of customer expectations consist of marketer-controlled factors as well as factors that the marketer has a limited ability to affect (innate personal needs, word-of-mouth communications, competitive offerings). In a perfect world, expectations and perceptions would be identical: customers would perceive that they receive what they thought they would and should. In practice these concepts are often, even usually, separated by some distance. Broadly, it is the goal of service marketing to bridge this distance. The assumptions appears to be that

services, if not identical to goods, are at least similar enough in the consumers mind that they are chosen and evaluated in the same manner. The gaps model is useful as it allows management to make an analytical assessment of the cause of poor service quality. If the first gaps are great, the task of bridging the subsequent gaps becomes greater, and indeed it could be said that in such circumstances quality service can only be achieved by good luck rather than good management.

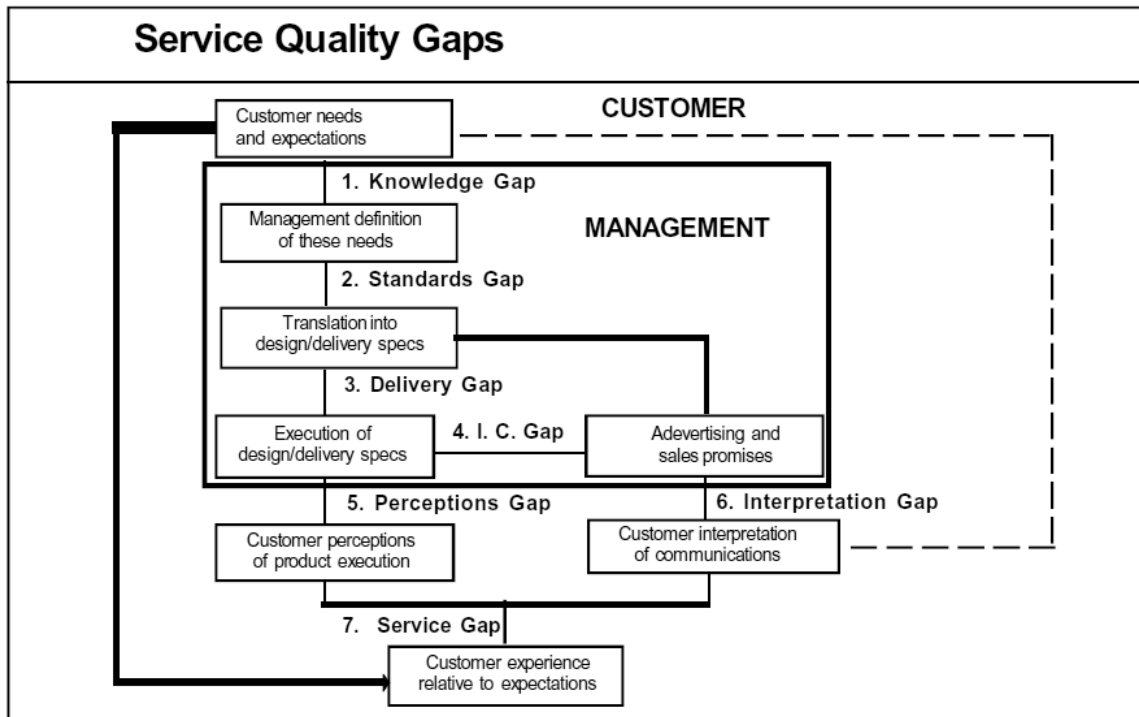


Fig. 3.1: Gaps Model of Service Quality

Gap 1: Not Knowing What Customers Expect

Not knowing what customers expect is one of the root causes of not delivering to the customer expectations gap one is the difference between customer expectations of the service and company understanding of those expectations. Examples abound — foreign banks were right in thinking that customer expectation in terms of ambiance was not being met. So, they brought in some good ambiance and more presentable executives and thought they had bridged the gap. But what they did not understand was that the customer was taking note of the lack of ambiance because there was a wait when he was twiddling his thumbs and looking around for a place to sit. In other words, he was really complaining about the lack of speed and ease of operations. Result: Fancy ambiance and higher cost attached to the same slow and indifferent service, albeit by better looking personnel in better surrounds. Private sector banks understood the problem a mite better, but they too slipped up as business grew. They lost out on sustainability of the service promise.

Example: A contractor using an electrical subcontractor for the first time may expect the subcontractor to use a certain grade of wire conduit in all of their construction sites they subcontractor, however, may think the contractor wants to use the lowest grade to keep the cost down. Unless the

contractor clearly delineates his expectations, he will probably be dissatisfied because the subcontractor did not do what was expected.

The reverse may also occur. Management can provide a service they think customers expect without conforming customer expectations. Although on the surface this sounds good because customer expectations will probably be exceeded, there are two dangers. First, if customer expectations are consistently exceeded, in time, these expectations will rise to meet the service being provided. Example: If customers do not expect their cars to be vacuumed and cleaned inside when the oil is changed at Quik Lube, then at first they will be pleased with this extra touch. But the next time they use Quik Lube, their expectations increase and after a few times of receiving this special touch, it will become a permanent part of their expectations. Failure to vacuum and clean the interior of the car will then result in a negative gap since the vacuuming and the cleaning of the interior becomes something customers expected. The second danger is that the firm may be spending money on providing services that the customers do not expect or perhaps even care about, thus yielding a negative impact on profit.

Causes of Gap One

No direct interactions with customers. When people with the authority and responsibility for setting priorities do not fully understand customers' service expectations, they may trigger a chain of bad decisions and sub-optimal resources allocations that result in perceptions of poor service quality. One example of displaced priorities stemming from an inaccurate understanding of customers' expectations is spending far too much money on buildings and appearance of a company's physical facilities when customers may be much more concerned with how convenient, conventional and functional the facilities are. Another example is illustrated by the management of Sears in the early 1990s, when the company failed to understand that the customers had changed their desires and modes of shopping. The company kept its traditional catalogue store long after customers had decided to take their business elsewhere. In the mid-1990s, Sears management rediscovered its customers, now defined primarily as women, and began once again to be profitable and satisfying to customers. The service providers see themselves as indifferent or superior to customers. This typically happens in government-run services such as railways or postal departments where they would not want to know what customer desires.

Unwillingness to ask customers about expectations. Service providers may think that they know what is best for their customers. This is the patronising attitude towards the customers. In today's changing organisations, the authority to make adjustments in service delivery is delegated to empowered teams and front-line people. For example, when AT&T asked its long-distance operators to improve their service to customers, the team identified key customer segments and conducted its own customer research to determine expectations. Gap one was closed without involving management as it is traditionally defined.

Unpreparedness to address the expectations. The service provider may be aware of the shortfalls but may be unprepared to address the issue in the mistaken belief that the customers may be tolerant or that the lapse is unlikely to loss of customer patronage. Another trend related to gap one involves current company strategies to retain customers and strengthen relationships with them. The term relationship marketing is used to describe this approach, which emphasizes strengthening the bonds with existing customers. When customers have strong relationships with their customers, gap 1 is less likely to occur.

Lack of market segmentation to understand the needs are such segment. Market segmentation is the grouping of customers sharing similar requirements, expectations and demographic or psychographic profiles. Segmentation is usually done to understand the needs of customers more elaborately or distinctly. While segmentation has been used by marketers for decades, it may be more critical today than any other time. Customers are no longer satisfied by homogeneous products and services for the mass market; now, more than ever before, they are seeking and buying services that fit their unique configuration of needs. If the needs are not precisely understood due to lack of segmentation, quality perception is likely to be poor.

Strategies for Reducing Gap One

Service firms have four strategies available to them to reduce the size of gap one. These strategies are: communicating with the customers, conducting marketing research, encouraging upward communication in the organization, and decreasing the number of layers of management. By talking to customers, management will learn what buyers expect in terms of service quality and how they feel about the service they received. Contact and communication between customers and management is common in small business because the owner is often the service operator.

Buyer may not always be honest in their communication with management of service firm. To ensure open, honest communication, service firm can use marketing research, which can either be performed by third parties or, in case of large cooperation, by the marketing department. To be effective, the marketing research much focus on service quality issues and consumer expectations of the service.

For firms where management is separated from the customer contact personnel, upward communication is vital in reducing the size of gap one. Service contact personnel must be encouraged to communicate with management in an open, nonthreatening environment. To be effective, upward communication must be requested by top management. Ideas for improvement should not only be sought from service contact personnel, but employees should be rewarded for productive ideas.

As the layers of management increase, the chances of management having a correct understanding of what customer want in terms of service quality became more difficult. Many service firms, therefore, are seeking means to reduce the number of management layers.

For much small business, service quality is the major issue in the selection of their telecommunications provider. According to Tony Parella, executive vice-president of Allegiance Telecom of Dallas, "People buy from us because they don't necessarily feel appreciated by regional Bell carrier". The goal of Allegiance management is to provide customers with personalised service. To ensure management hears about customer concerns and to ensure Allegiance communicate effectively to customers, Allegiance has instituted a customer Bill of Rights and place a customer-service manager in each branch. These actions have been a major step for Allegiance in reducing the size of gap one and ensuring a high level of customer satisfaction. Formal and informal methods to capture information about customer expectations can be developed through market research. Techniques involving a variety of traditional research approaches must be used to stay close to the customer, among them customer visits, survey research, complaint systems, and customer panels. More innovative techniques such as quality function deployment, structured brainstorming, and service quality gap analysis are often needed. Many marketers are achieving success with niche marketing – targeting segments of customers and developing services and strategies that fit their needs

better than other companies' offerings. Other marketers are embracing the concept of mass customization – creating services for a large group of customers that can be customized or appear to be customized through technological innovations. Technology affords companies the ability to acquire and integrate vast quantities of data on customers that can be used to build relationships. Frequent flier travel programmes conducted by airlines, car rental companies, and hotels are among the most familiar programmes of this type. Relationship marketing is distinct from transactional marketing, the term used to describe the more conventional emphasis on acquiring new customer rather than on retaining them. When companies focus too much on attracting new customers, they may fail to understand the changing needs and expectations of their current customers.

Gap Two: Not Selecting the Right Service Designs Standards

Accurate perceptions of customers' expectations are necessary, but not sufficient, for delivering superior quality service. Another prerequisite is the presence of service designs and performance standards that reflect those accurate perceptions. A recurring theme in service companies is the difficulty executives, managers, and other policy-setters experience in translating their understanding of customers' expectations into service quality specifications.

Gap 2 is the difference between the company understanding of customer expectations and development of customer driven service designs and standards. Customer driven standards are different from the conventional performance standards the most services company establish in that they are based on pivotal customer requirements that are visible to and are measured by customers. They are operation standards set to correspond to customer expectations and priorities rather than to company concerns such as productivity or efficiency.

Example: In the billing division in debit cards, companies charge a hefty interest rate on outstanding amounts. They, however, fail to check with the department that handles inflow of payments and updating of outstanding amounts. Often, a cheque is sent in on the due date and a statement with the finance charge sent out on the same date. The customer is hopping mad as he has paid up on due date, the debit card company claims that interest starts ticking on due date. Everyone has a valid reason, but the situation is a mess. In many of these cases, one observes a reluctance to tackle the problem head-on and a lack of commitment to providing quality service. While customer-contact personnel are key to providing quality service, leadership plays a pivotal role in ensuring that quality standards are in place and adhered to.

Causes of Gap Two

- **Absence of Customer-driven Standards of Service Quality:** The standards for quality improvement or planning should be clearly those which are desired by the customers rather than those set by only the service provider. Thus, the involvement of the end user/customer in the goal setting process is crucial to its success.
- **Absence of Formal Quality Control Goals:** It is not enough to say that quantification is not possible and, therefore, formal goals cannot be set for services delivery. Even subjective assessment may be vital in setting the standards.
- **Vague or Undefined Service Design:** The service design may have been running traditionally for a number of years without any alterations, or it may have been borrowed from some other concept. Defining the service would go a long way towards determining the

standards of customer satisfaction. Poor service design may also be a result of failure to connect service design to service positioning.

- **Resource Constraints:** A service firm may understand and even want to deliver services desired by the customers but is unable to because of resource constraints. Example, a local air-conditioner dealer knows that customers want quick repairs. However, demand for both services in springs and early summer will exceed the firm's capacity to provide the service. The number of technician available to repair AC is limited and the number of hours they can work is limited. Because of personnel constraints these services cannot meet customer expectations for quick service during the peak demand time.
- **Market Conditions:** The most competitive market condition impacting this gap is known as competitive parity, a situation where competitors produce almost identical quality goods and services. To prevent a competitor from capturing additional market share, companies often match a competitors offering. In some cases, firms translate customer expectations into matching competitive offerings rather than meeting the wants of their customers. If this is done there will be a gap between what firms know customer expect and service pacification, or what the firm actually provides. For example, an airline may know that passengers want more leg room in the airplane but they do not translate this in service specification. They do not put the seats further apart since other airlines are not doing it and to do so would reduce the potential passengers load. A second market condition affecting gap two is monopoly markets such as cable television services, utilities, and basic telephone services. Each operates with a virtual monopoly with no competitors. These firms may understand certain needs and expectations of their patrons but may not translate them to service specifications unless required to do so by a government agency supervising them.

Their rationale for permitting this situation may be that the cost of meeting customer expectations is higher than the additional revenues that could be generated if the change were made.

- **Management Indifference:** Management may talk about providing high quality service, but in actual practice they may offer only the minimum level of service that will suffice. The goal is not to provide customer satisfaction but to avoid customer dissatisfaction. In the short run, this philosophy may succeed and may even generate greater revenues because more customers can be served. But in the long run, customers will switch to competitors who provide better service. Management complacency is a problem in many corporate owned service facilities because of the pressure to generate short term profits.
- Inadequate service leadership:
 - Perception of in-feasibility
 - Inadequate management commitment.

Strategies for Reducing Gap Two

To reduce the size of gap two, service firms must have the commitment of top management. Many mission statements have references to the firm being committed to providing customers with high level of service quality. However, in actual practice, firm often emphasis on cost reduction, gross sales, and net profit rather than a high level of quality. There are two reasons for the discrepancy between mission statements and actual practice. First is the difficulty of measuring service and the ease of measuring costs, sales and profits. Second, the current reward system is often based on non-

service criteria. Most managers are promoted and rewarded for generating greater sales, increasing net profits, reducing costs, not for enhancing service quality.

If service firms are going to get serious about providing high quality service, they must start with a commitment by management. Not only must the management be committed to providing a high level of service, they must also set an example for their employees. Managers who talk service but fail to deliver an example of good service are not committed.

Reduction of this gap requires setting service quality goals. These goals must be set with the customer, the service contact provider and management in mind. Customer contact employees must understand management's perspective and the need to generate a profit. In exchange, management must understand what is possible and what is not in terms of operations. Service contact personnel can provide their supervisors with valuable input into the best process for achieving service quality goals.

To be effective, the goals must be customer-oriented. The service quality standards must be what customers want and desire. Including in the goal setting process is advantageous to both management and service contact personnel.

Task standardization will also reduce the size of gap two. Standardization can be achieved through hard technology (substituting machines or computers for people) or soft technology (improving work methods). Both methods are designed to standardize the operation and provide a uniform delivery of the service to customers, reducing the gap between management perception of consumer expectations, and the translation of those expectations into service quality specifications.

Example: Hard technology can be used to completely replace the human provider as in case of ATMs or it could be used to improve the consistency of service, as in the case of the diagnostic computer used by auto mechanics and the automatic scrubbing machines used by cleaning the service.

Example: The standardized employee training procedure used by McDonald's, the prepackaged tours offered by many travel agencies, and the buffet used by Pizza Hut. By standardizing the training McDonald's strives to ensure that all employees use the same procedure in preparing food for their customers. No matter where one buys a McDonald's hamburger, it will look and taste the same. The same concept applies to prepackaged tours offered by travel agencies and a lunch buffet offered by Pizza Hut.

Closing gap two by demonstrating strong leadership commitment and by setting customers' performance standards – has a powerful positive impact on closing the customer gap. Leadership plays a pivotal role in providing service excellence.

Strategic measurement systems are also necessary to close this gap. While company measurement has historically been the bailiwick of finance and accounting, management strategies now call for the addition of key marketing indicators in the overall measurement programme. To achieve competitive superiority in an era when satisfying a customer is a priority, companies need measurement systems that incorporate and align measures of customer perceptions and satisfaction with pivotal operational and performance indicators. Sam Walton of Wal-Mart is hailed as a service leader worldwide. His service philosophy to spur on his people and organization is as follows:

- Realize that customer-service is the key.
- Design for comfort and convenience.
- Provide one-stop shopping.

- Customize
- Invert the organizational chart so that the customer is on the top and the management is at the bottom.
- Empower the sales staff.
- Provide servant leadership as Wal-Mart's managers are servants to the needs of their employees and customers.
- Recognize that the customer is always right.

While Sam Walton's philosophy may appear simplistic, it was his adherence to these very principles that led to the soaring growth of Wal-Mart in the 1990s, when others were retrenching and cutting down on costs.

Gap Three: Not Delivering to Service Standards

Gap 3 is the discrepancy between developments of customer driven service standards and actual service performance by company employees. Even when guidelines exist for performing services well and treating customers correctly, high quality service performance is not a certainty. Standards must be backed by appropriate resources (people, systems, technology) and also must be supported to be effective – that is, employees must be measured and compensated on the basis of performance along those standards. Thus, even when standards accurately reflect customers' expectations, if the company fails to provide support for them – if it does not facilitate, encourage, and require their achievement – standards do no good. When the level of service delivery performance falls short of the standards, it falls short of what customers expect as well. Narrowing Gap 3, by ensuring that all the resources needed to achieve the standards are in place reduce the gap.

Another problem associated with the bridging of provider gap 3 is that of dealing with franchisees, agents, retailers and brokers. Because quality in service occurs at the moment of truth, i.e., at the point of interaction between the service provider and the customer, control over the service encounter by the company is crucial, yet it is rarely possible.

When one NIIT franchisee falls short of set educational standards, it reflects on the company as a whole. When food at one outlet of Birdy's, McDonald's or Croissants, etc., is below quality standards, the image of the entire chain is tarnished. For this, the firm needs to develop systems to either control or motivate these intermediaries to meet company goals.

Primary causes of this gap are variable and inseparable nature of services. Because most services are performed by people, the quality of service is highly dependent upon well the service provider performs his or her job. If the service contact personnel provide services as specified, customers are usually satisfied and their expectations are met, if employees do not provide the service as specified in the service specifications, customer expectations will not be met and customers will be dissatisfied.

Cause of Gap Three

- Deficiencies in human resources policies.
 - **Ineffective Recruitment:** The front-end employees involved in services delivery require certain qualities that enable them to relate to and deal with customers.

They require training to achieve this.

- **Role Ambiguity and Role Conflict:** These include employees who do not clearly understand the role they are to play in the company, employees who feel in conflict between customers and company management, the wrong employees.
- Poor employee-technology job fit
- Inappropriate evaluation and compensation systems
- Lack of empowerment, perceived control, and teamwork.

These factors all relate to the company's human resource function, involving internal practices such as recruitment, training, feedback, job design, motivation, and organizational structure.

- **Failure to Match Supply and Demand:** When demand for a particular service exceeds the supply capacity, the general tendency is to shorten the process of the service delivery to speed up the process. Usually, in this case the quality of the service delivered deteriorates.
 - Failure to smooth peaks and valleys of demand
 - Inappropriate customer mix
 - Over reliance on price to smooth demand
- **Customers not fulfilling roles:** The customer is as much involved in the process of services delivery as the service provider. Therefore, training the customer to receive the service to derive maximum benefit is essential.
 - Customers lacking knowledge of their roles and responsibilities.
 - Customers negatively impacting each other
- **Lack of training to the franchisee's staff:** Whenever service is provided by a franchisee in lieu of the service provider, the front-end employees of the franchisee require elaborate training to be able to cope with the customer demands in a standardized and predetermined manner. Most service companies face an even more formidable task: attaining service excellence and consistency in the presence of intermediaries who represent them, interact with their customers, and yet are not under their direct control. Among the intermediaries that play a central role in service delivery are retailers, franchisees and dealers.

Strategies for Reducing Gap Three

A common characteristic of successful service companies is teamwork. A feeling of teamwork is created when employees see other employees and management as key members of the team. The lowest-level employee must feel that management, from their immediate supervisor to the CEO of the company, cares about them and that they are a critical part of the firm's success. There must be a spirit of cooperation, not competition, among employees. All of this is achieved when every employee is involved in the company and committed to providing a high level of service to customers, to the company, and to other employees. For instance, Southwest Airlines is often cited as a service provider with excellent teamwork. If employees are to provide the services according to the job specifications, there must be a fit between employee skills and job requirements. Firms must hire individuals who have the ability to perform the job. Once hired, management must be sure each employee has to do the tasks according to the company's procedures.

Because of technology, many service firms are using machines, tools, and computers to assist service workers in their job. To perform their job according to company standards, service employees must have the proper equipment. The equipment needs to be in good condition and the employees

must have the knowledge and training to properly use the technology to enhance the quality of their work.

To diagnose problems with newer automobiles, computerized diagnostic equipment is essential. The quality of diagnosis is dependent upon the quality and condition of the equipment and the ability of the service technician to operate it. In cleaning carpets in homes and offices, the operator of the equipment can perform a good job only if the shampoo machine is running properly and he or she has the ability to operate it.

An important factor in reducing gap 3 is the concept of perceived employee control. When employees are allowed some flexibility and control in the service process, morale is enhanced, and there is a greater desire to perform the service properly. Flexibility and control also allow service employees to modify the process to meet the particular needs and desires of customers. In addition, by having control of the service encounter, the outcome of the service will become more predictable. The supervisory control system will have an impact on the size of gap 3. If service employees are encouraged and rewarded for meeting job specifications, the likelihood of employees doing the job according to the specifications increases.

However, supervisors often tell employees to follow the correct job specifications but reward or punish employees on other criteria, which is called role conflict. For example, employees may be evaluated by their supervisors on such criteria as a balanced cash register for a bank teller, the number of automobiles repaired by a mechanic, and the amount of time spent cleaning a particular office by a janitor. When this occurs, employees will shortcut the specifications to improve whatever criteria are used by their supervisors in their evaluations, often neglecting other service specifications.

Role conflict is inherent in many service contact positions. How this role conflict is handled will have an impact on how closely the service delivered matches the service specified. The primary conflict faced by service contact personnel is between expectations of customers and expectation of management. This conflict is increased when employees are not given flexibility to meet the needs of customers, when employees have little control over how the service is to be performed, the amount of paperwork necessary to carry out the service, and the number of other employees a service provider must contact or use in the process of performing the service.

To reduce role conflict, management should allow service contact personnel adequate flexibility to meet customer needs. Employees need to have some control over the service encounter because the greater the control, the less role conflict experienced. Control and flexibility mean service employees will not have to go to other employees and managers with questions and for permission to modify the service to meet a customers' unique request. It is responsibility of the management to reduce the amount of conflict faced by their service employees. Not only does reducing role conflict aid service employers in meeting the needs of customers but it will increase job satisfaction, job morale and length of employment.

Role ambiguity refers to employees' lack of information or understanding of their job and job requirements. As role ambiguity increases job satisfaction decreases. It also becomes difficult for employees to perform the necessary job specifications if they lack an understanding of what these specifications are.

Management often mistakenly assumes employees understand their job when, in fact, service contact personnel do not have clear understanding of goals and expectations. Although they have been

told what to do, they may not have been told how the service is to be performed. To reduce role ambiguity, service firms must do the following:

Provide frequent and clear downward communication from management on what is expected and how the service is to be performed.

- Provide employees with constructive feedback to help them understand how the service is to be performed and what management expects.
- Provide employees with product and service knowledge so they can perform their jobs better.
- Train and retrain employees in the proper method of performing their service.
- Train service contact personnel to communicate effectively with customers, with supervisors, and with other employees.

Gap Four: Mismatch Between Promises and Performance

Gap four is the difference between the service delivered to customers and the external communications made about the service. Promises are made to consumers by a firm's advertising, sales promotions, and sales staff. These promises may be explicitly stated or they may be implied. If the firm does not provide the service that is promised, there is a gap between what customers expect and the service received.

As consumer expectations for a service increase, the profitability of patronizing the firm will also increase. To increase patronage, firms are tempted to make promises that may be difficult or even impossible to deliver. Communication through these channels tends to raise customer expectations and set certain standards to assess the service in the minds of customers. Any discrepancy between promised and actual service tends to broaden the customer gap. A recent advertisement by a leading pizza chain promised one free pizza with a specified order. On calling in for the offer, one found that the small print indicated that this offer was valid only at the counter and not on home delivery orders. Would the outlet have received so many calls if they had indicated this in bold type? While on the subject of pizzas, one wonders if Domino's manages to keep its promise of delivering anywhere in 30 minutes, especially in Mumbai traffic. If not, they must be making heavy losses on free pizzas.

Causes of Gap Four

Ineffective management of customer expectation

- **Failure to Manage Customer Expectations through all Forms of Communication:** In addition unduly elevating expectations through exaggerated claims, there are others, less obvious ways in which external communications influence customers' service quality assessments. Customers are not always aware of everything done behind the scenes to serve them well. One bank executive indicated that customers were unaware of the bank's behind-the-counter, online teller terminals, which would translate into visible effects on customer-service. By neglecting to inform customers of such behind-the-scenes efforts, the bank was foregoing an opportunity to favourably influence service perceptions.
- **Failure to Educate Customers Adequately:** In the anxiety to strike a deal or market the service, sales personnel promise more than what they can ever deliver. Such communication can be either formal or informal. Usually, customers set the service expectations according to such delivery and price quotations.

Over-promising

- **Over-promising in Advertising:** During the marketing phase, the sales force may go beyond the original script to strike the deal.
- **Over-promising in Personnel Selling:** While customers may be lost to competition due to under-promising, they may be lost due to over-promising as well.
- Over-promising through physical evidence cues

Inadequate horizontal communications

- **Insufficient Communication between Sales and Operations:** If during the personal selling phase a commitment was made to strike the deal, it is essential to convey this message to the other people in the organization, especially the production team, failing which, they may not be able to keep up with this additional conceded demand
- Insufficient communication between advertising and operations
- Differences in policies and procedures across branches or units

Pricing of Services

In packaged goods many customers possess enough price knowledge before purchase to be able to judge whether a price is fair or in line with competition. With services customers often have no internal reference point for prices before purchase and consumption. Pricing strategies such as discounting, “everyday prices” and couponing obviously need to be different in services in cases where the customers have no sense of the price to start with! Techniques for developing prices for services are more complicated than those for pricing of tangible goods.

Strategies for Reducing Gap Four

To Reduce the Size of gap Four, Service Firms must Address Two Issues: Horizontal communications and propensity to over promise. Service contact personnel should have input in the firm’s advertising and promotional to ensure that messages conveyed to the prospective customers can be operationally performed. The reverse is also true; service personnel should be informed prior to an advertising or promotional campaign. In service organisations with field sales representatives, there must be communication between the salespeople and the personnel performing the service. Salespeople will often make promises to prospective customers to gain contacts. If promises are made, the operations department needs to be aware of it so they can ensure the promises will be delivered.

The tendency to over promise increases with pressure to achieve greater profits or to meet competitive claims. In both cases, severe damage to the firm’s image can occur since it is unlikely the firm can perform the service as promised.

Customers’ service perceptions may also be enhanced if the company educates them to be better users of the service. Service companies frequently fail to capitalize on opportunities to improve customers’ perceptions. As on bank executive observed, “We don’t teach our customers how to use us well and why we do the things we do”. Effectively coordinating actual service delivery with external communications therefore narrows provider gap 4 and favourably affects the customer gap as well.

Another function that must be involved in communication is human resources. For employees to deliver excellent customer-service, firms must serve the employees through training, motivation, compensation and recognition to have a powerful impact on the quality of service the employees deliver.

External communications – whether from advertising, pricing or the tangibles associated with the service – can create a larger customer gap by raising expectations about service delivery. In addition to improving service delivery, companies must also manage all communications to customers so that inflated promises do not lead to higher expectations.

Case: Taj Mahal “Archetypal Drives” of a customer who visits Taj Mahal: The study was of the visitors including spouse, family, and group of friends or relatives. The primary drives of the tourist to this place are the beauty of the place and historical significance. The facilities sought in the vicinity of the Taj Mahal and basic amenities like safe drinking water, clean toilets, small grocers, cafeterias and milk. The sample interviewed was of the opinion that the Taj Mahal bedecked in moonlight was a picture of delight, and should not be missed. However, for those who could not make it on that crucial night of the month, similar creations could be made through a light and sound show. On the full moon night some cultural events could also be planned and offered. Since the main charm in visiting the city of Agra was the Taj Mahal, the tourists were keen on knowing the timings and approach to the spot and any rules that govern visiting this wonder of the world.

External Communication Content on Taj Mahal: The information provided on the government websites on Taj Mahal is not indicative of the facilities sought by the tourists. On fundamental information, the prevailing basic amenities in the vicinity of Taj Mahal are not listed, once in Agra how to reach Taj Mahal is not known. The visiting hours and weekly offs, if any are not notified. Also people travelling with families must be provided with information on basic amenities in and around the Taj Mahal.

For the bespoke customer, the historical significance, this is a selling point for Taj Mahal is not adequately flaunted. There is neither imagery nor mystic incorporated in the communication content. Taj Mahal bedecked in moonlight, a much sought after experience is also not adequately represented. Though there is a mention of the Taj’s beauty on a full moon night but there is no mention of when the full moon is expected in the next few months. Tourist could be provided with calendar data of full moon nights along with associated special events. There could be plans for special shows on full moon night to make experience more memorable. There is no mention of any light and sound show on any day. Taj Mahal is one of the wonders of the world, hence providing conservation guidelines for tourists in the communication content is an expectation.

MEASURING AND IMPROVING SERVICE QUALITY

In manufacturing organisations, a defective product can be easily recognized at any stage in the manufacturing process and prevented from reaching the customer. In addition, the quality standards for a product remain the same and do not vary from person to person or from time to time. So, it is comparatively easier to ensure quality in the case of products. However, in the case of a service organization, the quality of service depends on the perspective of a person. What an employee believes as quality service may not be perceived as such by the customer. For example, when a regular customer visits a bookstore, the employee there may give him a new arrival on a topic that he thinks is of interest to the customer. However, the customer might prefer to take a trip of the store and see all the new titles for himself. He might in fact feel annoyed with the employee. So, offering a high quality service is an enormous challenge for any service organization. At the same time, service organisations cannot offer a completely standardized service as some customers prefer a customized service offering

to suit their needs. In this chapter, we shall define quality; discuss its importance, discuss the methods to measure quality and understand strategies to improve it.

Definitions of Quality and its Significance

Let us first observe some of the definitions given by experts in the field: According to Philip B. Crosby, “Quality is conformance to requirements”.

According to Parasuraman and Berry, “Quality is exceeding what customers expect from the service”.

According to Garvin, quality can be defined from different perspectives – user-based, product-based, manufacturing-based, value-based and transcendent view.

User-based Approach: This approach suggests that quality should be defined from the customer’s perspective. A service offering that meets the customer’s needs and wants to his complete satisfaction is quality service. This approach also recognizes that different customers have different needs, because of which it becomes difficult for the service provider to satisfy every customer’s needs. For example, a supermarket packs the items bought by a customer and arranges for it to be delivered to his car. One customer may consider this quality service but another may not because he expects a door-delivery service.

Product-based Approach: This approach suggests that the service offered by an organization falls short of the quality standards only when a certain attribute or aspect of service is left out or distorted. For example, if a customer comments that the quality of service offered by a hotel is poor, the approach assumes that either the food was not tasty, the service personnel were not customer-oriented or that the ambience was not good. It assumes that service quality can be well defined and established, and does not vary from person to person.

Operations-based Approach: This approach suggests that the quality of a service depends on the efficiency of the operations involved in service design and delivery. It emphasises cost effectiveness and productivity rather than customer needs and preferences. For example, a fast food outlet needs to deliver food to the customer without any delay. If the outlet fails to meet the quality standards, this approach assumes it is due to a flaw in the operations involved.

Value-based Approach: This approach seeks to define quality as the value offered in return for the price paid by the customer. In other words, it suggests that the higher the price charged from the customer, the more should be the benefits offered by the service provider. For example, the quality of service offered by a five-star hotel should be higher than that offered by an ordinary hotel, as the customer charges are comparatively higher.

Transcendent View of Quality: This approach suggests that a person can assess the quality of a service accurately only when he is exposed to it repeatedly. For example, a customer may like the service offered by a particular hotel in a city better than that of any other hotel. According to this approach, he would have arrived at this decision only after repeated exposure to the service. This approach suggests that consistency in maintaining quality standards is important.

Though the definitions of ‘Quality’ vary greatly, everyone accepts that it is a key determinant of the success of an organization.

Following are some of the reasons why quality is significant for the success of a service organization:

To win Credibility and Obtain Repeat Customers: If an organization offers quality service consistently, it enjoys repeat business, that is, customers visit it repeatedly. Because customers obtain the desired service and are happy with it, the chances of their moving to a different organization are minimized. They may even refer it to their friends and relatives and provide positive word-of-mouth publicity to the quality service offered by the organization. Thus, the organization succeeds in attracting new customers as well.

To Charge Premium Price: When an organization offers superior quality service compared to its competitors, customers who value quality will always prefer this organization to other players in the market. Therefore, the organization will be in a position to charge a premium price from customers. However, organisations competing on the quality aspect need to continuously improve and offer better services so that they always set themselves above the competitors and win the loyalty of customers.

Measuring Service Quality

The intangible and perishable nature of services makes it difficult for organisations to measure their quality, identify the loopholes and take necessary steps to improve the quality. Service organisations therefore evaluate certain components of a service to determine its quality. According to Gronroos, any service has two important components – functional and technical.

Functional: This component involves interaction between the customer and the service personnel. For example, when a customer visits a hotel, the warmth at the reception, the promptness in check-in and the responsiveness of room service, all comprise the functional component of service.

Technical: This component refers to the output of the service operation. For example, if a flight reaches its destination exactly on time, the airlines is said to have delivered quality service with respect to the technical component. The technical component of service is easier to evaluate than the functional component.

According to Berry and Parasuraman, service quality is determined by customers using various criteria like credibility, security, access, communication, tangibles, responsiveness, competence, reliability, etc. The authors identify similarities among some of these criteria and therefore consolidate them into five dimensions like Tangibles, Reliability, Responsiveness, Assurance and Empathy.

Tangibles: Service is intangible to customers. However, they assess the service by the equipment used to provide the service, the premises within which the service is offered and the employees who provide the service. Therefore, service providers need to ensure that they provide the right ambiance and infrastructure to the customers and that their smart and pleasant employees offer high quality service. Managing tangibles like these enables organisations to make a positive impression on not only existing customers, but also on prospective and first-time customers.

Reliability: The service offered by an organization needs to meet the expectations of customers consistently. It is only then that a customer considers the service reliable and the organization dependable. Services should be tested for their consistency before they are launched. They should be monitored closely after their launch and the management should take immediate steps if any unexpected service failures are observed. In addition, the organization should provide suitable infrastructure for error-free services. For example, there should be proper communication systems in

place and the employees should be trained in technical skills and service skills to provide high quality service.

Responsiveness: Service personnel should be prompt in attending to customers and serving their requirements. The customers should perceive them to be enthusiastic and responsive while serving them. The personnel should be especially attentive during problem situations where the customer has some complaints with the service. Employees should be empowered by the management to do all that they can to help a customer in trouble. Employees who work with commitment and customer orientation should be rewarded to encourage similar behaviour among all the employees.

Assurance: Service personnel should have a thorough knowledge of the service they are providing to the customers. For example, a sales executive selling mutual funds should have complete knowledge of the expected returns and the tax implications of the investment. He should be able to provide strong and timely advice to his customers. His knowledge and his confidence should assure the customers that the company's service is dependable and trustworthy.

Empathy: The service personnel of an organization should be easily accessible and open to communication. They should empathize with customers who report problems and work quickly to resolve them. For example, when a customer calls up a bank complaining that he has a problem with the balance amount and needs to get it resolved immediately, the customer care executive on the phone should understand the problem, ask relevant questions and assure the customer of immediate action. He/she should also ensure that the problem is resolved at the earliest. Service personnel should consider customer complaints as an opportunity to interact with the customers, understand their needs and improve the service offering.

Service Quality Gap Model

Some service providers believe that they offer the best possible service to their customers. However, quite often the service falls far short of customer expectations. There is gap between what the customer expects and what the organization offers them. This is called *customer gap*. There can be different reasons for this gap and these are called the *provider gaps* by Zeithaml, Parasuraman and Berry. These gaps need to be closed to close the customer gap and improve the service to match customer expectations. Some of the reasons for this gap can be –

- Failure to understand customer expectations
- Failure to design the right service
- Not setting and communicating the right service standards to employees and intermediaries
- Failure to deliver the service standards to customers
- Failure to take customer feedback and review the service continuously

Failure to Understand Customer Expectations: The quality of decisions made by the management in service organisations often depends on the quantity and quality of information they have about the customers. Any decisions that are taken without the needs and preferences of customers being understood prove to be ineffective. The management may fail to prioritize its projects, fail to provide supplementary services valued by customers and offer services that are not required by them. This would simply add to the costs of the organization without awarding any benefits.

Managements fail to have information about customers because they are too engrossed in their managerial responsibilities and fail to interact with the customers. However, the front-line employees

are in continuous contact with customers and the management can interact with these employees to obtain the desired information. Efforts should be made by service organisations to minimize the number of layers between the top management and front-line personnel so that communication between them is easier and information is not lost while passing through different hierarchical levels.

Further, the management should conduct market research and attempt to collect more information related to customers' opinions about the quality of service and their expectations from the service provider. Various techniques like focus groups, brainstorming, and customer surveys can be used to collect the information. Information so collected should be used effectively to improve the service quality and to meet customers' expectations.

The management should also use the information about customers to build and develop relations with them. For example, greeting regular customers on special occasions like their birthday and wedding anniversary helps in enhancing and maintaining relationships. Information should be collected on the customer buying patterns too and the database should be regularly updated. Availability of the latest information enables the management to know the changes in customer expectations and reduce the customer gap.

Failure to Design the Right Service: Organisations which do not have service designs that meet customer expectations, are bound to lose out to competitors. The service design of an organization should take into account not only the current requirements of customers, but also their changing buying patterns. This helps the organization be proactive in its approach and capture a good market share by adding to the customer base. For example, cellular service companies that added the SMS (Short Messaging System) facility early to their service package succeeded in attracting customers. A new service offer from Hutch helps the customer check his outlook express mail immediately on his cellphone. This can be very useful for corporate travellers and might soon attract some new customers.

When companies fail to foresee customer needs and their changing preferences, they fail to design services that suit their needs. As a result, they fail to satisfy the customer and so lose the market to proactive competitors. When more and more service providers in the mobile industry start offering the mail service discussed above, any company that does not offer it will be perceived as falling short of the service quality expected by customers.

Not Setting and Communicating the Right Service Standards to Employees and Intermediaries: If an organization does not have any set service standards, employees do not know whether they are doing their job right while serving the customer. Without any standardized procedure or goals, they will do whatever they think is right in delivering the service. Sometimes, however, even if an organization has established standards, it fails to satisfy the customers. Either the standards might not be good enough to satisfy and attract customers or the employees and the intermediaries are not aware of these standards. When the standards are not communicated properly to the service personnel or the intermediaries, they fall short of customers' expectations, leading to their dissatisfaction.

It has, therefore, become imperative for service organisations to establish standards that actually meet the expectations of customers. In addition, the standards should be communicated to intermediaries and employees at all levels and they should be encouraged to maintain them. The standards should be complete, clear and concise. For example, a service standard that says, "a customer has to be attended to at the earliest" is inadequate when compared to "a customer has to be attended to within 30 seconds of entering the premises". It is not only the employees of the

organization, but also the intermediaries like agents and brokers who need to be aware of the service standards and their significance.

Failure in Delivering the Service Standards to Customers: Sometimes, in spite of designing a good service and selling service standards, a service provider might fail to deliver the promised quality service to customers. The reasons for such a failure can be many. One reason could be operational problems like technological or logistics problems. For example, a courier service provider promises that the consignment will reach its destination within 24 hours. However, due to bad weather, the flights are cancelled and the courier is delayed. This might annoy the consumer. Even sudden changes in the demand-supply balance might affect the quality of customer-service.

In some cases, in his eagerness to sell the service, a salesperson may promise something to the customer that the service offering does not include. For example, he might not reveal the inherent risks in making a financial investment and promises the customer high returns. However, the customer who suffers losses by purchasing the investment package might not realize that it has happened due to the inherent risk and may blame the organization. The management should, therefore, avoid and discourage strategies that make exaggerated promises. Sometimes, the customer might mislead the service provider by providing incorrect or incomplete information, and this might result in shoddy service delivery.

Sometimes, lack of communication between various departments also leads to poor quality service. For example, the marketing department may promise a customer that the service will be delivered on the same day. But the customer-service department may have some problems and declare that it cannot deliver the service before three days. Proper communication and co-ordination between the various departments will help the organization deliver better service.

Failure to take Customer Feedback and Review the Service Continuously: A service company which enjoys a large dedicated customer base today, may lose out to competitors if it fails to continually upgrade itself. The marketer should keep track of the changes in the market environment, the customer buying patterns and his changing needs to redesign his service from time-to-time. When a marketer relaxes and becomes complacent, the competitors soon make new offerings and attract the customers. Therefore, it becomes imperative for a marketer to keep track of customers' changing needs and requirements and modify his service offering accordingly.

When BSNL realized that the fixed line service was getting outdated and that most private telecom players were venturing into the cellular service business, it too started offering cellular services to its customers.

Service Quality Standards

Organisations should establish specific service standards so that all the employees strive to maintain them and customers experience excellent service. Standards can be set with respect to any aspect of the service that is of value to customers. Some organisations may set broader service standards that benefit other stakeholders like investors too. For example, Reliance which offers quality service to customers by supplying them with uninterrupted power has also set certain standards to benefit its investors (Refer above example.)

For example,

“Service Standards of Reliance Energy”	
<p>Reliance Energy Ltd., has established some quality objectives and a quality policy to offer high quality service to its customers.</p> <p>Its quality objectives include:</p> <ul style="list-style-type: none"> ● Making available reliable, uninterrupted and quality power to its customers ● Providing prompt, economical and reliable value-added services to its customers ● Ensuring continuous improvement in systems and processes by incorporating the latest technology and conforming to national and international standards <p>Its quality policy is as follows:</p> <ul style="list-style-type: none"> ● To be the best fully integrated electric supply utility and a leading provider of value-added services ● To meet or exceed the customer expectations by continuously improving the quality of its services ● To be a good corporate citizen and an environment-friendly organization <p>Apart from setting these objectives to serve customers, Reliance Energy has also set the following service standards to satisfy its investors:</p>	

Activity	No. of Days to perform
Transfer of shares	7
Transmission of shares	7
Issue of duplicate share certificates	30
De-materialization	15
Issue of duplicate dividend warrant	3
Issue of re-validated dividend warrant	3
Subdivision of share certificates	7
Change of address	4
Registration of nomination	4

The service standards should be in alignment with the goals of the organization. For example, when an organization aims to attract a varied customer base, it cannot set customized service standards. The management should involve employees actively in setting the service standards. As the employees themselves are involved in formulating standards, they are more likely to be committed to maintaining them. Once the management discusses and finalizes the set of standards, they should communicate the standards to all the employees and even the intermediaries. They should display them at various places (like conference hall, work area, water coolers, canteen, etc.,) throughout the organization so as to constantly remind the employees of their responsibilities. These standards should be communicated in a different form to the customers as well, so that they will know what to expect from the service provider.

The standards should be one of the best in the industry, but achievable within the organisation's means. For example, if a courier service provider sets a standard of delivery within 48 hours, he

should have the right infrastructure and logistics support to maintain the standard. If he does not have the right network in say, the Western part of the country and, therefore, fails to maintain the standard, customers would perceive it as quality failure. So, before setting the standards, a service provider should consider the practicality. Moreover, once standards are set, the management should ensure that there are no deviations from it. The service delivered by employees should exceed the standards but should never fall below them. The top management should extend the required support so that employees can achieve such excellence. In addition, the management should consider the costs involved in delivering the service. If the cost of achieving a certain standard is higher than the maximum price that customers will be willing to pay, it is better for the service provider not to aim for such high standards.

Strategies for Improving Service Quality

It is not too difficult for companies to improve service quality. What is required is the right strategy to do it and the commitment by all members of the organization. The following are some of the strategies that should be followed by service organisations to enhance the quality of service offered to customers:

- A service provider should aim at achieving zero-defects or error-free service. This can be achieved by having a management that believes in 100% perfection, providing the necessary infrastructure that facilitates error-free service, and by testing and retesting service processes at various stages to eliminate any loopholes. This will also help them improve continuously to set and achieve new standards. For example, DHL set up a separate express terminal spread over 26,500 sq. feet, using state-of-the-art technology, at Indira Gandhi International Airport, Delhi. As the customs' staff work round-the-clock at this site, the process of clearance of customers' consignments have been sped up, enabling DHL to deliver consignments faster to customers.
- Internal communication promotes better understanding among employees of each others' tasks and responsibilities, and the difficulties involved, and enhances cooperation and coordination which eventually results in better service to customers. Also, organisations should be equipped with modern training equipment and techniques to simulate real work environment and train employees to deliver quality service. UTI (Unit Trust of India), which saw its scale of operations and number of employees increase significantly, implemented an advanced communication system with the help of Wipro, to facilitate effective communication among its scattered branches and employees.
- Service providers should always test a service prior to launching it in the marketplace. If possible, a new service should be introduced in a few select places for test-marketing. This will allow sometime for the management to obtain customer feedback. In case customers report problems, the management can take corrective action. Another approach to prevent problems is to develop a service blueprint to identify all the activities that lead to final service delivery, identify problem areas and train employees to handle the problems. Service providers should also test the service after launching it. Setting higher service quality goals and striving to achieve them should be an ongoing process as any complacency will render the service outdated in a competitive market.
- Sometimes, service providers fail to deliver the service despite all the precautions they take to prevent a failure. At such times, customers' perception of service quality depends on the service provider's ability to resolve the problem immediately. To enable effective service

recovery and regain customers' confidence, service providers should train employees in recovery techniques and empower them to resolve the problem immediately. Also, they should reward employees who take the initiative and resolve the problem quickly.

- The management should extend support to employees by setting up the necessary information system and other infrastructure that enables employees to identify and rectify errors with ease. Further, organisations should encourage teamwork among employees. By having an effective service recovery system in place, service providers can assure customers *that* they care for them.
- Trained employees will be prepared to face problems and, therefore, can resolve them as soon as they occur and sometimes even before the customer can perceive the error. The benefits of empowerment, rewards, and information system have already been discussed in earlier chapters.

Monitoring Service Quality

Apart from using quality management techniques and adopting service quality improvement strategies, organisations should continually monitor their service quality. This will help the management ensure that customers receive the quality of service that their organization intends to deliver. The management can use the following methods to monitor service quality:

Conduct Customer Surveys: Service organisations should regularly conduct customer-services to know whether the customers have any issues with the service offered or with service personnel (Refer to example, Customer Survey at Sheraton). Questionnaires should be given to customers to elicit their opinions and rate the quality of service offered by the organization. Also, efforts should be made to explore the factors leading to any dissatisfaction. Mystery shoppers, researchers who visit service outlets posing as customers, may also be used to identify problems with service quality. These researchers keenly observe how the service is being delivered and how the customers respond to the service. They identify the deficiencies, if any, in the service processes. The management can then take necessary action to eliminate the deficiencies.

Monitor Customer Feedback: Managers should give special attention to the feedback given by customers in the form of complaints or suggestions or even compliments. The management should try to find out the root causes of problems in case of complaints, and prevent them from recurring. If the customer makes some suggestions, the management should consider them, discuss them with employees for their feasibility and applicability, and implement the ones that are valuable and practicable. If customers give compliments to service personnel, then management should encourage the concerned employees to continue to offer quality service by rewarding them.

For example,

“Customer Survey at Sheraton”
<p>Sheraton Brisbane Hotel and Towers (SBHT), situated in Brisbane, Australia, is the city's premier business and conference hotel. It wanted to offer excellent service to its customers and therefore conducted customer surveys in 1992 to know whether customers were satisfied with its quality of service.</p> <p>SBHT had both the Hotel and Towers. Towers offered a higher standard of quality to customers than the Hotel. SBHT had even set up a separate check-in facility for Tower's customers at the 27th floor of the building so that they did not have to stand in queue at Hotel's reception. However, some customers of</p>

Towers were seen to be waiting at Hotel's reception. SBHT put up a sign in the lobby indicating the way to Tower's reception. Apart from the sign, customers could obtain the information from the doorman or bellman and the Hotel's reception. However, the management did not know how effective the sign and staff were, in redirecting Towers' customers to the right check-in counter. Therefore, SBHT asked receptionists of Towers to collect information from customers on how they had come to know about Towers and the separate reception and note down the source in the record sheet. Similarly, the receptionists of Hotel were required to fill the record sheet containing questions like whether customers knew about Towers, the separate reception facility, whether they had ever stayed in Towers before, etc. The result of the study indicated that only a small percentage of the people knew about Towers and the separate reception facility. This indicated the need for SBHT to improve its commemoration with customers.

Another study was related to the time taken to deliver luggage to the guest's room. SBHT had a quality policy, which specified that a customer who checked-in the room should not wait for more than 10 minutes to have his luggage delivered to his room. However, SBHT wanted to know whether the standard was actually being followed. A card was given to customers to note down the time they arrived and the time their luggage arrived. The customer could give the card to the bellman or to the receptionist. A different colour code was chosen to represent each day of the work. The number of cards given and the cards returned by customers were also recorded carefully so that cards did not get lost or misplaced. If some cards were not returned, the management sought an explanation from the staff. At the end of the study, SBHT found that the longest time taken for luggage delivery was 8 minutes. Therefore, it was found that the luggage delivery process at SBHT did not have any problems and no immediate action was required to modify or re-engineer the service process.

Review Service Blueprints, Problem-tracking System: The management should constantly review the service blueprints and identify any problems that exist. If necessary, the management should change the monitoring procedures and problem tracking procedures. Service blueprinting is the process of representing the entire service process in the form of a picture/diagram so as to ensure that all the steps in a service process are covered. As the service blueprint provides information on each single event and activity involved in the service, a service manager can test its effectiveness on paper. He can modify the service process before applying the usual testing procedures (like test marketing, etc.)

Improving service quality is certainly not a simple, straightforward exercise.

Service quality can be improved if the following areas are given due attention:

- Identifying primary quality determinants,
- Managing customer expectations,
- Managing evidence,
- Educating customers about the service,
- Developing a quality culture,
- Automating quality,
- Following-up the service quality information system,
- Employing bench-marking wherever possible, and
- Keeping track of internal costs, external costs and quality maintenance costs.

Basics and Planning

Basic Methods to Get Customer Feedback

Measuring and Tracking Customer Satisfaction
 Customer-service Assessment Tool
 Customer Loyalty Value Calculator
 Customer Feedback Helps You Improve the Customer Experience

Additional Perspectives

Customer-service Ideas
 Customer-service – Web Marketing Today Info Centre
 Blocks to Customer Focus
 Getting It Together: Integrating Customer Focus, Involvement, and Horizontal Management
 Are You Creating A Favourable First Impression?
 Relationship Selling: The Path to Sales Success
 The Customer-service Zone and Help Centre
 Creative Customer-service – How Far Will You Go to Wow a Customer?
 Seeing Things from the Customer's Perspective
 World's Largest Collection of Customer-service Quotes
 Is The Service You Aren't Delivering Driving Your Customers Away?
 Create Top five Customer-service Metrics
 On Boarding – How Do You Welcome Your New Customers?
 Make an Action Plan To Improve Customer-service
 Improving Customer-service Requires Consistency

Marketing is a tricky term to understand nowadays. Since much of the field has been joined with sales, what once was a field of analysis and research has now become generalities. Marketing does not provide research for sales, and a sale does not just provide information for marketing. The group lost in this important business development is customer-services. All three must work together to improve any marketing and customer-service quality.

1. **Step 1:** Working as a team is a generalization no question. More often than not, however, that's rarely the case. To be able to work inter-departmentally is tricky but essential. To improve the productivity of marketing, customer-service must be seen as an invaluable partner, not just as a staff of gatekeepers or receptionists. Customer-service is what every person in any company does.
2. **Step 2:** Prepare and educate the sales staff to improve client interaction. Improved service quality extends beyond just a staff of people answering phones. An entire company is involved in improving service quality. Marketing can provide better presentation material not just for a sales staff but for the company overall. They can create new ways to pitch advancements for prospective investors. If there is an actual dedicated staff of customer-service representatives, marketing and sales can work together to get calls better directed to the appropriate staff. Customers always have invaluable insight and this information is always

best used when reported to the right people. This is an important time saver and one where teamwork is paramount to success. Both rely on each other for information. Anyone dealing with a client whether it be by phone or in person needs to be well prepared.

3. **Step 3:** Improving all marketing and customer-service entails teamwork. It also requires assistance from human resources. It should understand what each department requires so it can find the best employees. With interdepartmental feedback to human resources, the task of finding the best new employees is all that much easier. Thus, the new staff acclimates more easily into their new work environment. The best way to ensure that marketing service quality improves is to start an open forum. Whether it be online or in meetings, open discourse properly moderated by someone who understands the needs of the company on the whole should lead to greater teamwork. To leave anyone out of client acquisition or not to choose to take his feedback is a lot of potential positive insight left on the vine.

Features

- Defines the concepts needed to promote continuous quality improvement, including Total Quality Service (TQS)
- Discusses the HR training, motivational incentives, rewards, cost reductions, statistical process control, and process-monitoring techniques that prepare organisations to compete in global service markets
- analyzes worldwide quality award programmes and their competitive impact on service improvement
- Offers quality case studies for the “Big 3” non-market-driven services: government, education, and health care
- Includes profiles of global service quality leaders including Boeing Aerospace Support, Citigroup Card Services, Dell, FedEx, Marriott-Ritz-Carlton, and more

SERVICE PRODUCTIVITY

Introduction

The origin of productivity management is deeply rooted in the context of mass production therefore issues of productivity are mainly analyzed in this sphere. This may be the main reason for the prolonged neglect of the productivity issues in the sphere of service. Service organisations are recognized as the largest and fastest-growing segment of the economy in the world. Organisations that deliver service must broaden their examination of productivity from the conventional organization-oriented perspective to a dual organization-customer perspective. This broadened approach can help reconcile conflicts between improving service quality and boosting productivity (Sahay, 2005). According to Parasuraman (2002), customers are often involved into activity of an organization providing some amount of input in the form of time, physical effort and mental energy. With the expansion of point of view towards the examination of productivity to the point of organization-customer perspective, the problem of quality productivity ratio becomes more relevant. Some researches state that quality and productivity are two unrelated concepts. Productivity of manufacturing organisations is measured in quantitative units of input and output with relatively the same quality. There were several attempts to measure service sector productivity in the same way, i.e., using only quantitative dimensions of input and output (McLaughlin, 1990).

At least there are two reasons for inadequacy of this type of service sector productivity measures. The first reason is the fact that input and output of service sector productivity consist not only of quantitative elements but also qualitative. The second reason is the fact that quality and productivity in all the sectors of service are strongly correlative. Customer involvement to the organizational activity in the service sector generates many output quality variations. Therefore, output of service sector in many cases could be measured only by measuring its quality variations.

The concept of productivity in the service sector was not analyzed before the end of the twentieth century and only a few resources have been detected after comprehensive literature analysis concerned with research topic. These literature resources provide the analysis of productivity service in specific service sector spheres. Nachum (1999) analyzed issues of productivity measures of consulting firms, while Gupta (1995) in health care environment. Regarding the level of the problem analysis, it is important to render a conceptual analysis of service sector productivity.

The Definition of Service Productivity

The term of productivity economically is defined as the ratio between output and input.

Productivity = Input/Output

On the one hand productivity is related to utilization of resources, on the other hand productivity is related to the creation of value. Therefore, good productivity is achieved when activity of an organization and resources in the product creation process create value for getting product. Productivity can also be related to loss, which must be eliminated if productivity increases. A common mistake is to relate productivity to the amount of services offered. Therefore, a common mistake is to think that the more products are made the more productivity increases. It is important to keep in mind the fact that productivity is a relative concept and it cannot be said to increase or decrease by making such comparisons. Productivity depends on variations from competitors or other standards at a certain point of time or on changes over time. According to Misterik et.al., (1992), an increase in productivity can be caused by five different relationships of input and output:

- Output and input increases, but the increase in input is proportionally less than increase in output;
- Output increases while input stays the same;
- Output increases while input is reduced;
- Output stays the same while input decreases;
- Output decreases while input decreases even more.

It is also important to understand the ambiguous nature of productivity. There exist a few types of productivity as well as different hierarchical levels where productivity can be discussed within. Almost any process in an enterprise is fed with several types of input (e.g., labour, capital, material and energy) and has more than one output (e.g., product A, product B). We must be able to separate partial productivity (output related to one type of input) from total productivity (output related to multiple types of input). Considering existing hierarchical levels, it is not difficult to comprehend that the strategical perspective management towards productivity will differ from operational view of productivity among operators. The terms often have not a clear definition and are even identified with the term of productivity.

ISO 9000 series standard defines productivity as an extent to which planned activities are realised and planned results achieved (LST EN ISO 9001:2001). The concept of productivity is often confused with the efficiency term. Therefore, it is important to understand that efficient performance of unnecessary work is not productive. Therefore, productivity requires both efficiency and effectiveness. ISO 9000 series standard have defined efficiency and productivity very similarly (LST EN ISO 9000:2001). Output is the result achieved and input is the resources used. Therefore, it could seem that the same subject has different titles. Actually there is no single accepted view about these terms. Usually effectiveness is described as “doing the right things”, while efficiency means “doing things right”. Efficiency is strongly linked to the utilization of resources and it mainly influences the input of the productivity ratio. This means that efficiency in manufacturing can be seen as the minimum resource level that is theoretically required to run the desired operations in a given system, compared to how much resources are actually used. The efficiency ratio is rather simple to measure, whether it is based on time, money or something other. Effectiveness is a more comprehensive term and in most cases it is very difficult to quantify it. It is often linked to the creation of value for the customer and affects the output of the productivity ratio. Therefore, a single focus on effectiveness does not seem to be a fruitful way to increase productivity. Only the combination of high values of both efficiency and effectiveness in the transformation (producing manufacturing product or service offered) process leads to have the higher productivity values. Thus, it is possible for an effective system to be inefficient and for an efficient system to be ineffective. According to the basic principle of economic rationality, the purpose is to achieve a given result with minimal resources, or to get the maximum result with a given set of resources. However, it is very difficult to talk about the maximum level of performance in the production of services. Hence, it is important to elaborate the economic evaluation of service operations on the basis of the concept of productivity.

The concept of productivity mostly analyzed in manufacturing is too narrow in the case of service sector. Therefore, we have to interpret the analysis of productivity in the service sector in a broadened way than in the traditional manufacturing sense. We must include quality to our definition in the analysis of the productivity of service operations. We can define service productivity at the outset of analysis as the ability of a service organization to use inputs for providing services with quality matching the expectations of customers. The quantity and quality of service sector cannot be treated in isolation, because it may be impossible to separate the impact of service process on conventional productivity from its impact on service quality. Hence, both the quantity and quality aspects must be considered together to provide a joint impact on the total productivity of the service organisations. We can define service sector productivity to the following ratio:

Service productivity = Quantity of input and quality of input/ quantity of output and quality of output

In order to understanding the ratio better, we will analyze it in a more detailed fashion factors (quantitative and qualitative aspect) inside ratio.

The Quantity Aspect of Service Productivity

The quantity aspect of service productivity is identical to the manufacturing productivity and consists of material, labour, capital. Service business is personnel-intensive; therefore, productivity of many service spheres is low compared to manufacturing sphere. Therefore, many providers of services investing to technologies as alternative of using labour (e.g., automated teller machines replace operators, World Wide Web business replace sellers in the shops). It shows a way to increase

productivity through investing to the technologies in expenses of input element of capital. Though capital mostly impacts service productivity, we have no use for only this partial (capital) productivity measures. It might seem that output, amount or quantity is the primary factors to measure productivity. When a proposed service consists of one or several standardized components, output of service is easy to measure. Therefore, output can consist of a number of standardized services adapted to individual customers (e.g., in the case of a unique service package). Therefore, defining the service output is a difficult task. It is strategically important for the service provider to have enough of resources in order to match demand for the service. This strategy is oriented towards the quantity. However, from the customer's view, the volume of the service output is hardly a significant issue, because the customer usually buys only one unit of output (e.g., haircut) or one package of service (e.g., holiday tour). The customer is therefore inclined to give priority to service quality instead of quantity. Yet, the actual volume of operations is determined by the variation of demand overtime. As a consequence, the productivity ratio of service operations may vary greatly from one time period to another, if it is measured as a quantity ratio. Due to the variation in the amount of the total demand across time, the service provider has to solve two basic problems related to the quantity aspect: capacity size and capacity scheduling.

The Quality Aspect of Service Productivity

The quality aspect is a dimension that is difficult to define objectively. There is a humanistic quality approach. At the one extreme we must pay more attention to the customers, personnel, leadership and culture, whereas at the other end lies a technical approach concerning operations management, statistics and methods of measurement. Physical quality, interactive quality and corporate quality, and on the other hand they talk about the quality of process and output. As our ratio suggests, we divide quality into input and output dimensions, which are parallel to latter division of quality aspect. Therefore, we could state that output consists of a total service offering in terms of quality, and the input includes both tangible and intangible elements.

The output in the form of quality is what the customer in fact pays for, which is mostly intangible and may be difficult to quantify. Service quality is generally defined as customer perceived quality which stresses the individuals' assessment of the value of the total service offering and there is difference between expected service quality and experienced service quality. When purchasing services, customers' attention is often limited to a small number of tangible inputs. Physical environment – buildings, offices and interior design – affects customer beliefs, attitudes and satisfaction, and provides an opportunity to tell the “right” story about a given service. It is also very important how contact personnel dresses, articulates, writes, designs and presents proposals.

As intangible input, the service personnel represent the service, the organization and the marketers in the customer's eyes. The quality management of personnel includes such things as motivating, managing information, training, career planning, recruiting and retaining the right people. Service business is personnel intensive, meaning that quality supplied to the customer is essentially a result of the way personnel perform. Both employees and customers will experience more positive outcomes when the organization operates with a customer-service orientation and management supports it. An opportunity to utilize customers as free inputs in order to increase productivity from the viewpoint of service provider. Therefore, customer cannot be considered in isolation from the organization of offering and delivering services. Another important intangible element is service culture. By participating in the service delivery process, customers influence and even create

perceived service culture. High levels of intangibility call for image building and maintenance to attain reliance based on reputation and subjective impressions of the service. In the long run, image depends mainly on what the organization actually provides but in the short run image can be used as a tool for the creation of new reality.

Service sector productivity is heavily dependent on fast developing technologies and automation. Customers, instead of interacting with a contact person, they transact using an automated teller machine or a computer. According to Normann (1991), there are five main reasons for using information technologies:

1. Reducing costs by substituting service officers for information technologies
2. Standardizing services
3. Increasing availability (24-hour access to services using appropriate machines or computers)
4. Linking customers into the service system
5. Affecting customer and personnel relationships and behaviour.

Figure summarizes analyzed service sector productivity concept.

Different service sector spheres demand different formulations of the service productivity.

Therefore, dependent on service sector sphere quantity and quality aspects weights of service productivity will differ. Further research area could show productivity measurement problems. Foremost we have to answer to the questions in the research process how to measure input and output quality and how to relate different input and output factors.

The service economy is now the largest portion of the industrialized world's economic activity. This development has dramatically raised the importance of maximizing productivity excellence in service organisations. The need for productivity excellence has led service organization managers to use bench-marking techniques to identify and adopt best practices in their organisations. Bench-marking has enabled service organisations to continuously improve by allowing service units to learn from methods that prove the most efficient and effective.

Service Productivity Management systematically explores complex service issues and suggests the most appropriate methods to improve service productivity, quality, and profitability. The book provides insights and methods to answer questions on a range of productivity issues: How do you manage profitability of a network of hundreds or thousands of branch offices disbursed over several states and countries? How can managed-care organisations manage the quality and cost of hundreds of physicians providing health services to millions of plan members? What methods would enable a government to ensure that the multiple offices serving citizens across a country are operating at low cost while meeting the required service quality? Each of these service settings are examples of the many service providers that deliver a complex set of services to a widely diversified set of customers.

- Service productivity management is an in-depth guide to using the most powerful available bench-marking technique to improve service organization performance - Data Envelopment Analysis (DEA). The underlying concepts that drive DEA and enable it to increase productivity and profitability of service organisations are explained in non-technical language. It describes how DEA: (1) Identifies best practice service units; (2) Exposes high cost inefficient service units; (3) Identifies specific changes to each service unit to elevate performance to the best practice level that provides high quality service at low cost; and most

important, (4) Guides the improvement process. Use of basic and advanced DEA methods are all supported by case-study applications of organisations that have successfully improved their performance. The techniques discussed in the book are accessible to all managers with access to Microsoft® Excel spreadsheet software (Excel). The book provides step-by-step guidance to enable the reader to apply DEA and Excel software to their organization. Packaged with the book is a ready-to-use DEA software CD that includes the DEA Frontier software. DEA Frontier is a Microsoft® Excel Add-in designed to run DEA analyzes on any set of organisations of interest to the reader. For a free trial version of the DEA Frontier software, please visit www.deafrontier.com.

- **Retail:** improving productivity, efficiency and customer-service with a proven portal solution

SERVICE RECOVERY

Service recovery refers to the actions taken by an organization in response to a service failure. Failures occur for all kinds of reasons – the service may be unavailable when promised, it may be delivered late or too slowly, the outcome may be incorrect or poorly executed, or employees may be rude or uncaring. All of these types of failures bring about negative feelings and responses from customers. Left unfixed, they can result in customers leaving, telling other customers about their negative experiences, and even challenging the organization through consumer rights organisations or legal channels.

Research has shown that resolving customer problems effectively has a strong impact on customer satisfaction, loyalty, and bottom line performance. That is, customers who experience service failures, but are ultimately satisfied based on recovery efforts by the firm, will be more loyal than were those whose problems are not resolved. Data from the Technical Assistance Research Programme (TARP) verifies this relationship, as shown in Fig. 3.2. Those who complain and have their problems resolved quickly are much more likely to repurchase than are those whose complaints are not resolved. Who never complain are least likely to repurchase.

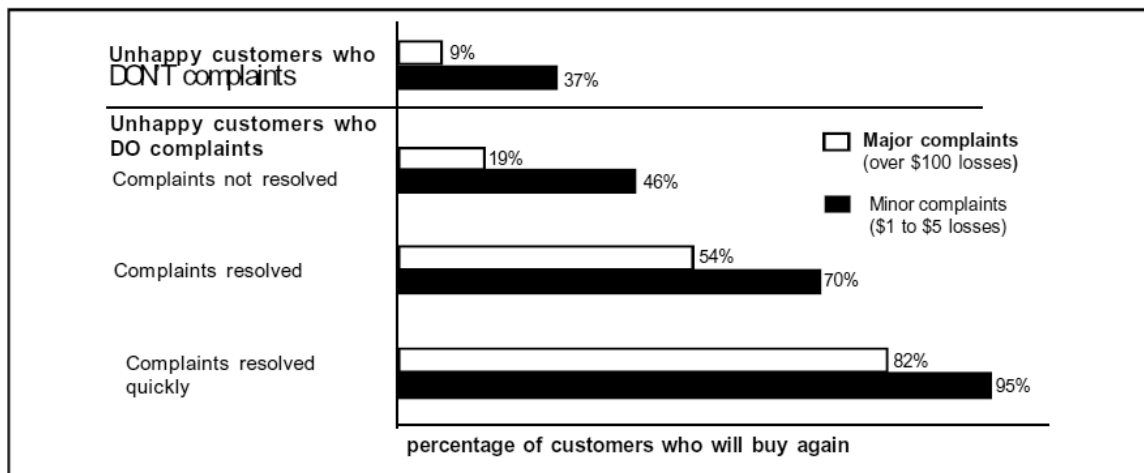


Fig. 3.2

Similar results were reported in a study of 720 HMO members, in which re-searchers found that those who were not satisfied with service recovery were much more likely to switch to a different health care provider than were those who were happy with how their problems were addressed. The study also found that satisfaction with service recovery was the second most important factor out of 11 service attributes in predicting overall customer satisfaction. The most important factor not surprisingly, was perceived medical outcome.

There are tremendous downsides to having no service recovery or ineffective service recovery strategies. Poor recovery following a bad service experience can lead to customers who are so dissatisfied they become “terrorists”, actively pursuing opportunities to openly criticize the company. Further, repeated service failures without an effective recovery strategy in place can aggravate even the best employees. The costs in employee morale and even lost employees can be huge, but often overlooked, costs of not having an effective service recovery strategy.

Managing Service Failures and Recovery Strategies

- Despite the benefits offered by effective service recovery strategies, research shows that the majority of customers are dissatisfied with the way the companies resolve their complaints.
- The vast majority of companies do not take advantage of the learning opportunities offered through service failures.
- Hence, *firms should design an effective service Recovery Strategy.*

Service Recovery Strategies

Not all companies are doing poorly at service recovery. Many have learned the importance of providing excellent recovery for disappointed customers. In this section we examine their strategies and share examples of benchmark companies and what they are doing.

Managing Service Failures and Recovery Strategies

- *Handling Service failures and complaints effectively is vital to maintaining satisfaction and loyalty.*
- **E.g. Saturn** to repair 3.5lk vehicle set up 800 number service shop, went directly to owner's homes and opened its check centres to dealers,
- **E.g. GE** found on an average customer buy 15 major appliances in their lifetime, and invested heavily in the GE Answer Centre to manage customer relationships and ensure that problems are addressed effectively and efficiently.
- **E.g. American Express** pays attention to the job satisfaction of its investment advisers, as found that more than 30% of an adviser's client would leave if the adviser left the company.
- **E.g. Federal Express, Xerox, Ritz Carlton** use failure data when making decisions on process improvements, coupling service recovery with initiatives to increase customer satisfaction in failure.

Fail-safe Your Service – Do It Right the First Time!

The first rule of service quality is to do it right the first time. In this way recovery is unnecessary, customers get what they expect, and the costs of redoing the service and compensating for errors can be avoided. As you have already learned, reliability, or doing it right the first time, is the most important dimension of service quality across industry contexts. As the figure suggests, elements of a

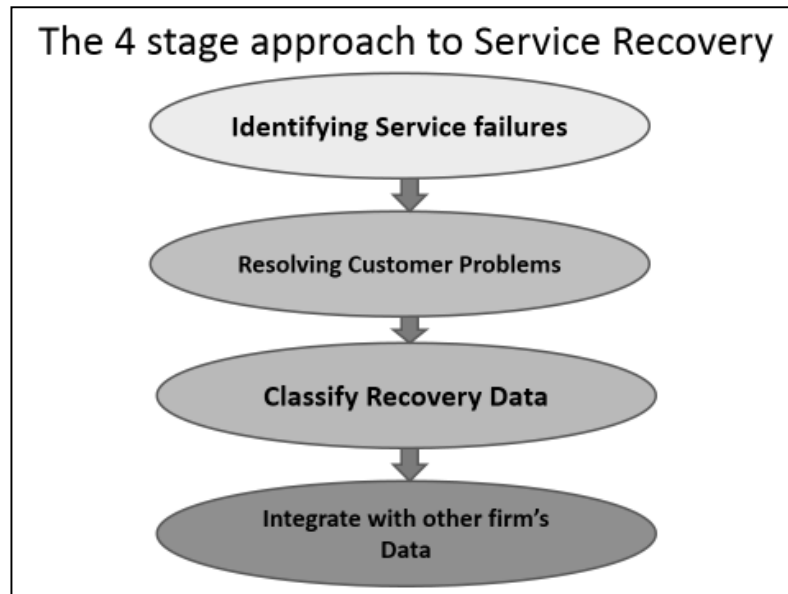
total service recovery strategy will lead in a circular fashion back to this most basic and fundamental of all service strategies – service reliability.

What specific strategies do firms employ to achieve reliability? TQM, or total quality management, practices aimed at “zero defects” are commonly used. However, given the inherent differences between services and manufactured products, these tools typically require considerable adaptation to work well in service contexts. Firms that blindly adopt TQM practices, without considering services implications, often fail in their efforts.

Dick Chase, noted service operations expert, suggests that services adopt the TQM notion of poka yokes to improve service reliability. Poka yokes are automatic warnings or controls in place to ensure mistakes are not made; essentially they are quality control mechanisms, typically used on assembly lines. Chase suggests that poka yokes can be devised in service settings to “mistakeproof” the service, to ensure that essential procedures are followed, and to ensure that service steps are carried out in the proper order and in a timely manner. In a hospital setting numerous poka yokes ensure that procedures are followed to avoid potentially life-threatening mistakes. For example, trays for surgical instruments have indentations for specific instruments, and each instrument is nested in its appropriate spot. In this way surgeons and their staff know that all instruments are in their places prior to closing the patient’s incision.

Similarly, poka yokes can be devised to ensure that the tangibles associated with the service are clean and well maintained, and that documents are accurate and up to date. Poka yokes can also be implemented for employee behaviours (checklists, role-playing and practice, reminder signs) and even for ensuring that customers perform effectively. Many of the strategies we discuss in Parts 3 and 4 of the text (“Aligning Strategy, Service Design, and Standards” and “Delivering and Performing Service”) are aimed at ensuring service reliability and can be viewed as applications of the basic fail-safing notion of poka yokes.

Even more fundamentally, it is important to create a culture of zero defections to ensure doing it right the first time. Within a zero defections culture, everyone understands the importance of reliability. Employees and managers aim to satisfy every customer and look for ways to improve the service. Employees in a zero defections culture fully understand and appreciate the “lifetime value of a customer” concept that was presented. Thus, they are motivated to provide quality service *every time* and to *every customer*.



Welcome and Encourage Complaints

Even in a zero defections organization that aims for 100 per cent service quality, failures occur. A critical component of a service recovery strategy is thus to welcome and encourage complaints. Complaints should be anticipated, encouraged, and tracked. The complaining customer should truly be viewed as a friend.

There are a number of ways to encourage and track complaints. Customer research can be designed specifically to do this through satisfaction surveys, critical incidents studies, and lost customer research as discussed earlier. In a less formal manner, employees can be important listening posts, discovering sources of customer dissatisfaction and service failure on the front-line. They should be encouraged to report this type of information. For example, at Ritz-Carlton hotels, all employees carry service recovery forms called “instant action forms” with them at all times so that they can immediately record service failures and actions to address them. Each individual employee “owns” any complaint that he or she receives and is responsible for seeing that service recovery occurs. In turn, the employees report these sources of service failure and the remedies. If common themes are observed across a number of failure situations, changes are made to service processes or attributes.

Part of encouraging complaints also involves teaching customers how to complain. Sometimes, they have no idea whom to speak to, what the process is, or what will be involved. It is best to make this process as simple as possible – the last thing customers want when they are dissatisfied is to face a complex, difficult-to-access process for complaining.

One way that the complaining process has been simplified for customers is through technology. New technologies have resulted in easier access for customers to sales and service representatives. Toll-free call centres, e-mail, and pagers are all used to facilitate, encourage, and track complaints. Software applications in a number of companies also allow complaints to be analyzed, sorted, responded to, and tracked automatically.

Customer Complaining Behaviour (CCB)

- The firm need to understand CCB and motivations of what customer expect in response.
- Customer typically complains (5%) for any combination of the following 4 responses:
 - *Restitution or Compensation* (refund, Service again)
 - *To vent out their anger* (hurt self-esteem, become emotional)
 - *Help to improve the service* (Bank, CUJ)
 - *To spare other customers from experiencing the same problem* (Altruistic reason)

Act Quickly

Complaining customers want quick responses. Thus, if the company welcomes, even encourages, complaints, it must be prepared to act on them quickly. This requires systems and procedures that allow quick action, as well as empowered employees.

Take Care of Problems on the Front-line

Customers want the persons who hear their complaints to solve their problems whether a complaint is registered in person, over the phone, or via the internet. In the example given earlier, the Ritz Carlton insists that the first person to hear a complaint from a customer “owns” that complaint until he or she is sure it is resolved. That means that if a maintenance employee hears a complaint from a customer while the employee is in the middle of fixing a light in the hotel corridor, he owns that complaint and must be sure that it is handled appropriately before returning to his work.

Another obvious way to speed complaint handling is to call (or in some cases electronically respond to) customers, rather than send responses in the mail. Even customers who take the time to write can be called back. Smith and Hawken, a garden supply mail-order company based in California, found that this strategy of phoning customers worked well for them – they were quicker to respond to their customers, and the costs of the phone calls were offset by the reduced costs and time involved with paperwork.

Empower Employees

Employees must be trained and empowered to solve problems as they occur. At Advance PCS, a large pharmacy benefits provider covering 75,000,000 patients, the goal is to solve the customer’s problem on the first call. The company uses customer knowledge databases as the key source for immediate problem-solving by its customer-service representatives. These representatives are empowered to solve the customer’s problem, but at the same time they must adhere to stringent requirements necessary in the health and pharmaceutical administration business.

A problem not solved can quickly escalate. Take, for example, a true story of a corporate vice-president who sent an e-mail to his bank to register a complaint as he was attempting a transaction through its internet banking service. The e-mail was never answered. The customer then sent an e-mail directly to the president of the bank. That e-mail was never answered either. Ultimately, the customer withdrew his approximately \$70,000 account because his complaint was not handled in a timely manner. In this case the technology was not effectively linked to other systems, nor ultimately to employees. The internet access encouraged the complaint, but the response never occurred.

Sometimes, employees can even anticipate problems before they arise and surprise customers with a solution. For example, flight attendants on a flight severely delayed due to weather anticipated everyone's hunger, particularly the young children. Once in flight, they announced to the harried travellers, "Thank you for your extreme patience in waiting with us. Now that we're on our way, we'd like to offer you complimentary beverages and dinner. Because we have a number of very hungry children on board, we'd like to serve them first, if that's OK with all of you". The passengers nodded and applauded their efforts, knowing that hungry, crying children could make the situation even worse. The flight attendants had anticipated a problem and solved it before it escalated.

For service employees, there is a specific and real need for recovery training. Because customers demand that service recovery take place on the spot and quickly, front-line employees need the skills, authority, and incentives to engage in effective recovery. Effective recovery skills include hearing the customer's problems, taking initiative, identifying solutions, improvising, and perhaps bending the rules from time-to-time.

Employees not only need the authority to act (usually within certain defined limits), but they should not be punished for taking action. In fact, incentives should exist that encourage employees to exercise their recovery authority. At the Ritz Carlton, employees are authorized to spend \$2,000 on behalf of the customer to solve a problem. This amount of money is rarely needed, but knowing that they have to encourages employees to be responsive without fear of retribution.

Allow Customers to Solve Their Own Problems

Another way that problems or complaints can be handled quickly is by building systems that allow customers to actually solve their own service needs and fix their own problems. Typically this is done through technology. Customers directly interface with the company's technology to perform their own customer-service, providing them with instant answers. This is the case with FedEx's package tracking services, for example. Our Technology Spotlight features a company that is a master at online customer-service – Cisco Systems.

Treat Customers Fairly

In responding quickly, it is also critical to treat each customer fairly. As discussed in an earlier section, customers expect to be treated fairly in terms of the outcome they receive, the process by which the service recovery takes place, and the interpersonal treatment they receive. Examples, strategies and results of research focused on fairness in service recovery were discussed earlier. Here you are reminded that this fair treatment is an essential component of an effective service recovery strategy.

Learn from Recovery Experiences

"Problem-resolution situations are more than just opportunities to fix flawed service and strengthen ties with customers. They are also a valuable –but frequently ignored or underutilized – source of diagnostic, prescriptive information for improving customer-service". By tracking service recovery efforts and solutions, managers can often learn about systematic problems in the delivery system that need fixing. By conducting root-cause analysis, firms can identify the sources of the problems and modify processes, sometimes eliminating almost completely the need for recovery. At the Ritz Carlton, employees record every service recovery opportunity and how it was handled; the employee who gets the complaint is required to do this. This information is then entered into the

customer database and analyzed for patterns and systemic service issues that need to be fixed. If needed, a project team is assigned to a problematic area to develop a solution. In addition, the information is entered into the customer's personal data file so that when that customer stays at the Ritz-Carlton again (no matter what hotel), employees can be aware of the previous experience, ensuring that it doesn't happen again for that particular customer.

Learn from Lost Customers

Another key component of an effective service recovery strategy is to learn from the customers who defect or decide to leave. Formal market research to discover the reasons customers have left can assist in preventing failures in the future. This type of research is difficult, even painful for companies, however. No one really likes to examine their failures. Yet this is essential for preventing the same mistakes and losing more customers in the future.

As presented chapter earlier lost customer research typically involves in-depth probing of customers to determine their true reasons for leaving. This is most effectively done by depth interviews, administered by skilled interviewers who truly understand the business. It may be best to have this type of research done by senior people in the company, particularly in business-to-business contexts where customers are large and the impact of even one lost customer is great. The type of depth analysis often requires a series of "why" questions or "tell me more about that" questions to get at the actual, core reason for the customer's defection.

In conducting this kind of research, it is important to focus on important or profitable customers who have left – not just everyone who has left the company. An insurance company in Australia once began this type of research to learn about their lost customers, only to find that the customers they were losing tended to be their least profitable customers anyway. They quickly determined that depth research on how to keep these unprofitable customers would not be a good investment!

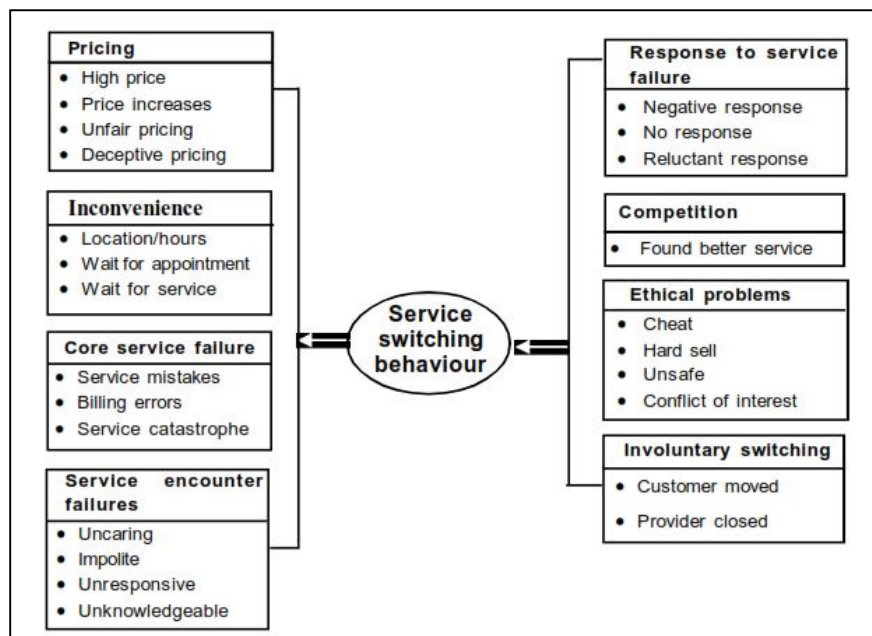


Fig. 3.4 Causes Behind Service Switching

Although the specific causes of customer defection will surely vary across industries and companies, some common themes have been observed in academic research. In a study of approximately 500 service-switching incidents, eight broad themes underlying the decision to defect were identified. These themes (pricing, inconvenience, core service failure, service encounter failure, response to service failure, competition, ethical problems, and involuntary switching) and their sub-themes are shown in Fig. 3.4. In more than 300 of these switching incidents, more than one theme was represented. For example, one of the largest categories was “core service failure”. In fact, 25 per cent of the incidents with only one cause cited core service failure as the reason for switching. In incidents where there were two themes, 29 per cent had core service failure as one of the causes for switching, and 22 per cent of the three-theme incidents included this cause.

Return to “Doing It Right”

The set of strategies described follows Figure 3.4 and leads directly back to the beginning: “fail-safe the service and do it right the first time”. By integrating all of the strategies, companies will find less and less of a need for service recovery. Yet, when those situations do occur, they will be prepared to impress the customer and keep their business any way.

COMPLAINT HANDLING

Handling Consumer Complaints

It is hard to imagine a customer transaction not vulnerable to problems and complaints, be it buying groceries, connecting to cable service, purchasing a car or having a home repair done. Nor is it hard to see why businesses benefit from making concerted efforts to prevent and respond to customer complaints.

Research shows, in fact, that companies attract and keep customers when they follow customer-service standards and policies that prevent problems from arising, and are honest, fair and responsive when things go wrong. Customer complaint management (CCM) encompasses techniques, processes and systems that lessen the chance of customers having problems and allow businesses to respond fairly, efficiently and effectively when complaints arise.

Although many firms and industry sectors already carry out some form of customer complaints management, surveys suggest that many Canadian customers are not satisfied with how businesses respond to customer problems.

Complaint management systems and company policies on refunds, exchanges and product service vary widely depending on the nature of the product or service, the terms of purchase, consumer use patterns, and so on. There is no single formula that will provide universal relief for dissatisfied consumers.

The commitment and continuing involvement of company management is critical to successful complaint resolution and to the optimum use of complaints as a management tool. Managers will help discover new ways to improve both the complaint-management system and the fairness of remedies offered to consumers.

Complaints are a Goldmine of Information

Complaints offer businesses an opportunity to correct immediate problems. In addition, they frequently provide constructive ideas for improving products, adapting marketing practices, upgrading services, or modifying promotional material and product information.

While occasional problems with service of merchandise are, to some extent, inevitable, dissatisfied customers are not. Companies can learn to recover from mistakes. A good recovery can turn angry, frustrated customers into loyal ones.

Recognizing the importance of responding fairly and efficiently to buyer disappointment in the marketplace, many businesses have established effective and innovative systems for resolving consumer complaints. Within any industry, those companies with a positive philosophy and a reputation for fair complaint-management have a competitive edge.

A management philosophy that embraces customer satisfaction as a primary goal of business, instead of defending the company in the face of complaints, can change the rules of the game for companies. It shifts the emphasis from the cost of pleasing a customer to the value of doing so, and trusts front-line employees to use their judgment.

British Airways' customer-relations department can claim to be a true champion of the customer. The retention rate among those who complain to customer relations has more than doubled, while its return on investment (the value of business saved plus increased loyalty and new business from referrals relative to the department's total costs) has risen 200%. British Airways employees are never happy to have service failures but are eager to hear about them when they occur because they know that ignorance is anything but bliss.

Why is Complaints Handling Important?

Generate Loyalty, Goodwill and Word-of-Mouth

By talking back when they believe they have not received their money's worth, consumers give businesses an opportunity to correct the immediate problem and restore goodwill. Experience shows that consumers who complain about products and services continue to frequent the businesses and buy the products they complain about if they believe the complaint was resolved fairly.

Research into complaint behaviour reveals that only a fraction of dissatisfied consumers complains to business and, thereby, gives the company an opportunity to correct the problem. There is evidence that some consumers do not complain because they are skeptical about business's willingness or ability to resolve disputes fairly. Consumers simply withdraw their patronage and criticize the company or the product to others.

Such findings underscore the importance to business of a complaint management system that is well-publicized and easily accessible. An unregistered complaint may do as much harm as one that is mismanaged or not resolved.

Careful complaint management can save business unwanted costs. For example, negative word-of-mouth publicity from dissatisfied consumers means lost revenue and necessitates additional investment in advertising to attract replacement customers.

Complaints and complaint trends tell business how to do its job better by alerting management to problems that need prompt attention and correction. Furthermore, they indicate long-range

opportunities for product innovation and problem prevention. A well-planned system for screening and recording complaint data can provide business owners and managers answers to such important questions as the following:

- Are products “oversold” or “over advertised?”
- Is advertising clearly understood?
- Are salespeople overzealous?
- Do product disclosures (such as labelling, warranty information and service agreements) need to be improved?
- Are user’s manuals clear, complete and easy-to-read?
- Would changing warranty coverage reduce complaints?

Complaints also provide information about product quality:

- Are there opportunities for product improvements or better quality control?
- Are there indications of safety defects that should be reported and corrected, or that justify a recall?

To get this valuable feedback, complaint-reporting must generate information swiftly and systematically to the appropriate managers or departments. Initial screening should trigger immediate action, when necessary, and statistical summaries should identify trends and long-range courses of action.

Consequences to Business of Dissatisfied Customers

The results of a US survey showed that unhappy customers, even when they don’t complain, have a negative effect on a business.

- About half the time, customers who have a problem with a product or service are not likely to tell the company about it.
- Nine out of ten of these “silent critics” will probably take their future business to a competitor.
- One out of every two customers who complain are not thoroughly satisfied with the company’s efforts to solve the problem.
- Dissatisfied customers typically tell between seven to nine other people about an unsatisfactory experience with a company.
- Negative information has twice the impact of positive information on purchasing decisions.

Word-of-mouth is one of the most important factors influencing a customer’s decision to buy from a company.

After Complaint what they want?

They expect the firm to deal with them in a fair manner along 3 dimensions of fairness:

- **Procedural fairness:** customers expect the firm to have a convenient, responsive, and flexible service recovery process.
- **Interactional Justice:** customers expect an honest explanation, a genuine effort to solve the problem, and polite treatment.
- **Outcome justice:** customers expect a compensation that reflects the loss and inconvenience suffered as a result of the service failure.

An Eight-step Model for Developing Consumer Complaints Management Initiatives

Step One: Define Problem and Gather Information

- What problem is the consumer complaints management initiative intended to address? Is there baseline data pertaining to the needs and concerns of consumers on which to draw? What are the objectives of the consumer complaints management initiative, and does everyone agree with them? Finding common ground on the problems being addressed and the objectives of the initiative is essential to moving ahead with solutions. Industry Canada's Office of Consumer Affairs has developed a diagnostic tool to help companies identify problems with complaints handling.
- What are the options for resolving the problem, and what are the potential costs, drawbacks and benefits of each solution? Industry Canada's Office of Consumer Affairs has developed a diagnostic tool to help businesses identify ways of improving refund and exchange policies. There may be value in looking to the experience of merchants in other sectors and jurisdictions.
- Have all the people and organisations that could be involved or affected by the consumer complaints management initiative been identified, and have their interests or concerns been taken into account? For example, the views of a cross-section of upper management and rank and file officials within affected organisations, representatives of consumer organisations, and government officials should all be taken into consideration. Clearly, the range of identified individuals will depend on the initiative in question. A single pizza delivery company may not need to directly involve anyone outside the organization when developing a "30 minutes or free" delivery policy, but it would be wise to identify and articulate the interests of the drivers (e.g., the delivery policy should not put drivers at risk).

Step Two: Hold Preliminary Discussions with Major Stakeholders

The objective of this stage is to test the tentative conclusions reached in the information-gathering phase and identify partners willing to help develop the consumer complaints management initiative. Looking beyond like-minded industry colleagues to more broadly affected interests such as consumer group representatives and government officials can help to confirm initial perceptions of the initiative or stimulate useful revisions. Informal bilateral sessions may be appropriate in many situations, and focus groups are also useful for testing new ideas.

Step Three: Create a Working Group

Having the right people on the working group is essential. They should be dependable, credible and knowledgeable, represent the diversity of affected stakeholders, and have the necessary time and resources to commit to the project. Frank discussion should take place at the outset about the group's objectives, members' responsibilities, anticipated workloads and outcomes, and the ground rules about how the group will operate (e.g., decision-making by consensus, rotating chairs).

Within the organization, an effort should be made to ensure that front-line employees (who will play a major role in implementing the Consumer Complaints Management initiative), managerial staff and key organization leaders are included.

Consumer complaints management proponents may wish to explore the feasibility of inviting a government representative to participate in the working group, since relevant government agencies and departments can provide important expertise and advice. Even when they do not agree to participate as working group members, relevant government departments and agencies should be consulted early on in the development of the consumer complaints management initiative.

To ensure that the full range of concerns is heard, it is very useful to invite knowledgeable consumer group representatives to participate in the working group. Consumer groups can provide a wealth of information and valuable perspectives about complaints issues, and their input can give consumer complaints management initiatives additional legitimacy. "[A consumer group] told us things about our own product that we didn't even know", said John Tory, President and CEO of Rogers Cable Inc. This has led Rogers to develop new ideas and services. Consumer groups and consumer complaints management initiators should work together to maintain the credibility and independence of the participating consumer group. Regular communication with the full consumer group community is also useful. When consumer group representatives are involved, it is strongly recommended that some form of remuneration be offered, such as an honorarium and compensation for travel expenses.

When selecting consumer group representatives, a good fit — both of the group and of the individual within the group — is particularly important. Care must be taken when identifying the right consumer groups and inviting the appropriate representatives within the groups. In this regard, it is recommended that the consumer groups be fully informed of the goals of the consumer complaints management initiative, the development and implementation processes, and the particular roles and responsibilities of the consumer group representative. This ensures mutual understanding, builds trust and sets the groundwork for a good working relationship. Before agreeing to participate, the consumer group representative will likely want to know the following:

- Whether all the major players are at the table
- The views of relevant government agencies on the initiative

- The track record of the consumer complaints management proponent for similar initiatives
- Whether there is commitment from the organization's leaders
- The openness and accessibility of the decision-making process
- The roles and responsibilities of all working group participants.

Step Four: Prepare Preliminary Draft and Explore Appropriate Structures

In preparing a preliminary draft of the initiative, working group members will likely identify who (people, organisations and new institutional structures) will be responsible for which aspects of implementation. For example, certain employees may perform key new functions, and a new agency or management structure may be created to help with implementation. Several of the consumer complaints management initiatives discussed in Part One of this Guide are housed in separate non-profit bodies dedicated specifically to complaints management or dispute resolution (e.g., the Canadian Banking Ombudsman, Advertising Standards Canada's national and regional consumer response councils, and the Cable Television Standards Council). The advantage of such new structures is greater perceived and real independence from other aspects of the organization's activities. The credibility of complaints handling and dispute resolution decisions is likely to increase when decision-makers are seen to be at arm's length from the organization's other activities and officials.

In other situations, ad hoc use of neutral third-party mediators or arbitrators may be sufficient (e.g., as used by the Better Business Bureau). In such situations, there needs to be criteria for assessing the expertise of the third parties. Creation of new structures and use of new parties to help with complaints handling may involve considerable expense, which should be factored into design considerations from the outset.

Step Five: Consult With Stakeholders

The working group draft of the initiative should be considered a point of departure. Thorough consultations concerning the draft with all interested parties will help prevent problems later. One good approach is to work outward, from those most likely to be directly affected to those less likely to know about the initiative.

For industry-wide initiatives, once the working group has agreed to a draft, it should invite, using a public announcement in appropriate media, comments from anyone interested, allowing a reasonable time for comments to be returned. Direct solicitation of comments from known interested parties is also advised. A consultation plan can be useful. It should include roles for high-profile officials with good communications skills to explain the consumer complaints management initiative and receive feedback. Typically, this feedback would go to the working group, which would then discuss how and to what extent the final draft would reflect the comments.

Step Six: Announce and Publicize the Initiative

As mentioned earlier, a consumer complaints management initiative that is not adequately publicized has little chance of succeeding. Participating merchants (including managers and employees), consumers and governments all need to know what the initiative is and how it affects them. A good communications plan is important. It should identify who must be made aware of the consumer complaints management initiative, who should receive a copy of its terms, and how the individuals and groups will be reached. The communications activities might include an awareness campaign addressing such matters as the use of a logo, publicity endeavours such as advertising and

speeches, pamphlets, and a notice that firms and organisations can display on their premises. There must be adequate funding to ensure that these communications activities are properly carried out.

Step Seven: Implement the Initiative

The following are essential elements of effective implementation.

Adequate Financing: When there is not sufficient funding, a consumer complaints management initiative risks being nothing more than words on paper, potentially frustrating consumers and bringing the reputation of firms into disrepute. The salaries of complaints-handling specialists, communications budgets, payment of consumer group representatives' expenses, and costs associated with operating new decision-making bodies need to be taken into account from the outset. Possible self-financing levies (e.g., paying dispute resolution experts on a per use basis) need also to be carefully worked out before the programme is launched.

Phased-in Implementation: There may be value in implementing the initiative in phases. For example, a programme might operate only in certain jurisdictions at first, or apply only to certain types of transactions. Alternatively, the programme could initially operate on a "pilot" (limited term) basis. The advantage of the phased-in approach is that it allows administrators to test the viability and practicality of a programme, and make appropriate adjustments before unveiling a full and comprehensive initiative.

Ongoing Communications Initiatives: In addition to initial communications activities, there need to be regular information updates — quarterly, bi-annually or annually — to tell affected parties how the programme is working and about any changes in operation or other developments.

Step Eight: Monitor, Review and Improve the Initiative

Regular monitoring, review and continual improvement of programme terms and operation should be designed into consumer complaints management initiatives from the outset. When and how often the monitoring and reviews take place should be based in part on how long it will take to generate data on effects and objectives achieved. To measure the impact of a consumer complaints management initiative, data is needed on the situation prior to the consumer complaints management initiative being launched (i.e., baseline data) and at frequent intervals thereafter. This data can be used not only to determine weaknesses in consumer complaints management initiative design and operation, but also to demonstrate results. The Cable Television Standards Council, for example, does a random callback of consumers who have had problems to find out how well the process worked. The Canadian Motor Vehicle Arbitration Plan (CAMVAP) uses an independent survey firm to collect and interpret information from all clients concerning its dispute resolution system. Such processes provide vital feedback to the organization, so it can understand where systemic problems lie and how they may be corrected.

It may be useful to model the review methodology after the initial development process. An independent third party who conducts parts or all of the assessment can provide a more detached perspective and perhaps lend more credibility to the process. For example, every five years, CAMVAP hires an independent consultant to thoroughly review its operations.

A Summary Checklist for Individual Firms

- Develop and communicate policies and procedures to decrease the likelihood of problems arising and to ensure certain positive outcomes should problems occur.

- Designate a location to receive complaints that is visible and accessible, and publicize its existence.
- Develop a system for record keeping, so that complaints data can be easily communicated to top management, analyzed and used to monitor the efficiency and effectiveness of complaints response. Process and record complaints as they occur, in appropriate categories. Assign complaint handling to the appropriate person.
- Acknowledge the complaint, preferably personally, bearing in mind any special needs of the customer.
- Investigate and analyze the complaint fairly, getting both sides of the story and keeping records of all meetings and developments.
- Resolve the manner according to company policy, keeping the customer informed throughout the process, including prompt notification of a proposed settlement.
- Follow-up with the customer to ensure that he or she is satisfied. When necessary, refer the complaint to a third party dispute resolution service.
- Prepare and file a report on how the complaint was resolved, and periodically analyze complaint data.

Tips and Suggestions for Developing Customer Complaint Initiatives

Be flexible and patient: Original conceptions of the problem and possible solutions will likely change as new information becomes available, difficulties develop or circumstances change. Developing customer complaint initiatives is, in large part, a learning process.

Draw on existing institutional structures. For many firms, industry associations represent known quantities — trusted intermediaries with the profile and experience to bring parties together and broker differences. Associations can provide forums for discussion and serve as a basic institutional structure for moving customer complaint initiatives from concept to implementation. However, as discussed earlier, implementation may necessitate creation of new, more specialised structures beyond the capability of conventional industry associations.

Don't assume that "if you build a Customer Complaint Initiatives they will come".

Once a programme has been announced, ongoing efforts are needed to ensure that customer complaint initiatives are visible and accessible to customers at the right time and in the right place. The following are examples of techniques to maintain the profile of a customer complaint initiatives:

- A logo on a retailer's door
- A notice on a company's invoices and statements and in electronic communications
- A clickable logo on a merchant's website that takes customers to more detailed information
- Pamphlets placed at the point of transaction.

Provide a range of options: When it comes to matters of customer complaints management, one size definitely does not fit all. The nature of customer problems differs significantly depending on the particular issue, the product, the customer and other factors. When a number of customer complaint initiative options are available, the likelihood increases that the appropriate response will be found, and both the customer and the merchant will be satisfied. Comprehensive services, from prevention through internal complaints handling to external dispute resolution, provide maximum choice.

Set a time limit for each stage of the process: Time limits provide a predetermined structure for both the customer and the merchant, and give guidance about what to expect. Customers and staff alike need to know the deadlines and the consequences for missing them.

Draw on the credibility and expertise of customer organisations: In addition to being involved in the development of initiatives, customer groups can provide ongoing assistance through participation on advisory panels or committees, membership on the board of directors, participation in a formal panel, or direct involvement in implementation, monitoring and dispute resolution.

Hire the right people to do the job: Effective complaints management personnel have the following characteristics:

- Good communication skills
- The ability to empathize with unhappy customers
- Enthusiasm for and a commitment to effective, fair and efficient complaints management
- Thorough knowledge of the organization's structure and processes
- The ability to objectively assess all relevant factors about complaints from the point of view of both the customer and the company
- The ability to identify systemic complaints and to devise strategies to deal with them
- Training in mediation, facilitation or arbitration, as appropriate.

Dispute resolution providers must have sufficient skills and training to competently fulfil the function. While formal legal training is not required, knowledge of basic legal concepts and relevant laws, standards, codes and international agreements is essential.

Draw on existing standards, criteria and benchmarks: Standards Australia, the British Standards Institution and the Argentinian Standards organizations have all developed complaints-handling standards, and Standards Australia has published a guide to preventing, handling and resolving disputes. The International organization for Standardization (ISO) is developing an international standard on complaints handling. The Canadian Standards Association and the Bureau de Normalization du Québec are developing e-commerce standards for customers.

A complaints-handling approach could be built into a company's overall approach to quality management, such as the ISO 9000 quality management system. The multistakeholder principles of customer protection for e-commerce is another useful benchmark on which to draw. The American Arbitration Association developed the Model Standards of Conduct for Mediators for customer mediators to follow (<http://www.adr.org>; click on Rules/Procedures in the menu on the left side of the screen, and then Ethics and Standards; the title of the document will appear as a clickable link in the main part of the screen). The Society of Professionals in Dispute Resolution developed ethical standards for dispute resolution professionals (<http://www.acrnet.org/about/committees/ethics.htm>). Protect the personal information of customers. While complaints oriented data can help businesses improve their products and services, great care must be taken to ensure that the personal information of customers is fully protected, in keeping with federal and provincial laws.

Importance of understanding customers psychology and Service Recovery

- *Avoid customer switching*
- *Restore confidence*
- *Restore relationship*
- *Improve future satisfaction*
- *Opportunity to retain for a long term*



Customer complaint system should:

- a. *Make it easy for customers to give feedback.*
- b. *Service recovery to be proactive, preplanned, trained & empowered.*
- c. *Establish appropriate compensation level.*

REVIEW QUESTIONS

State Whether the Following Statement are True or False

1. "Customer-service is the ability of an organization to constantly and consistently give the customer what they want and need".
2. The goal of service organisations is to achieve high customer satisfaction because this is what holds the key to customer retention and loyalty.
3. Service providers should identify the activities that are an integral part of the core service.
4. Development of feedback systems is not essential part of the quality improvement.
5. Quality is defined as the ability of the service provider to satisfy customer needs.
6. Service firms have four strategies available to them to reduce the size of gap one.
7. Gap 3 is the discrepancy between developments of customer driven service standards and actual service performance by company employees.
8. Sometimes lack of communication between various departments leads to better quality service.
9. The quantity aspect of service productivity is identical to the manufacturing productivity and consists of material, labour, capital.
10. An effective service recovery strategy has multiple potential impacts.
11. Complaining customers do not want quick responses.
12. For service employees, there is a specific and real need for recovery training.

Ans: 1. True, 2. True, 3. False, 4. False, 5. True, 6. True, 7. True, 8. False, 9. True, 10. True, 11. False, 12. True.

Fill in the Blanks

1. Good infrastructure and technology enable the employees to deliver high quality services to _____.
2. _____ also need to be kept informed of any changes made in the service delivery system.
3. Service providers may think that they know what is best for their _____.
4. _____ is the difference between the company understanding of customer expectations and development of customer driven service designs and standards.
5. Apart from using quality management techniques and adopting service quality improvement strategies, organisations should continually monitor their _____.
6. _____ = Quantity of input and quality of input/quantity of output and quality of output.
7. _____ refers to the actions taken by an organization in response to a service failure.
8. A critical component of a service recovery strategy is thus to welcome and _____.
9. A problem not solved can quickly _____.
10. "Problem-resolution situations are more than just opportunities to fix flawed service and strengthen ties with _____.
11. _____ Model for Developing Consumer Complaints Management Initiatives.
12. It may be useful to model the review methodology after the initial _____.

Ans: 1. Customers, 2. Customers, 3. Customers, 4. Gap 2, 5. service quality, 6. service productivity, 7. service recovery, 8. encourage complaints, 9. Escalate, 10. Customers, 11. an eight-step, 12. development process.

Terminal Questions

1. How can a service provider win over customers using customer-service?
2. What are the different steps to implement an effective customer-service programme?
3. Explain how customer can be retain through quality improvement?
4. The total service quality management [TSQM] emphasizes different policies statements such as...?
5. Define service quality?
6. Explain David Garvin's article 'Competing on the Eight Dimensions of Quality'?
7. How we can Use SERVQUAL to measure service quality?
8. Explain the gaps model of service quality?
9. How we can measure and improve service quality?
10. Define service quality and its significance?
11. Define service productivity?

12. Define service recovery?
13. Explain service recovery strategies?
14. Is complaints are a goldmine of information?
15. Why is complaints handling important?

16. **Case Example:**

Focused on managing functions that influences the perceived service quality:

An annoyed and irritated customer walked into a watch repair shop with a wristwatch that was repaired and had the battery changed a few days ago, but now was in the same condition as it was before the repair. The person behind the counter acknowledged the fact that he had changed the battery but would look into the probable.

This gesture immediately eased the tension of the customer, but who still had doubts about the quality of the battery. Understanding from the body language of the customer, he showed that the little cell was active with 1.6 V of current. And confirmed that there still was a guarantee period of one year for the battery.

He then walked in to get the machine cleaned. As the customer waited for the job to be done, she noticed other customers come into the shop. Most of them were greeted by name. This further changed the attitude of the customer – whose aggressiveness had all disappeared.

The man returned the watch to the customer and assured that everything was fine. He even refused to accept anything towards the repair as the customer had already paid before. By refusing to accept a little money he had gained a lot of goodwill. At the end he had a relieved and joyous customer who would evangelize his shop to all friends and family.

Source: Intelligent Investor.

- (a) Problem of Service Quality
- (b) Service Quality Management
- (c) Dimensions of Perceived quality
- (d) Dimensions of Quality
- (e) Service Gaps



Chapter 4

Marketing of Services

Structure:

- ☞ International and Global strategies in Services Marketing
- ☞ Services in the Global Economy
- ☞ Moving from Domestic to Transnational Marketing
- ☞ Factors favouring Transnational Strategy
- ☞ Recent Trends in Marketing of Services in Tourism, Hospitality, Healthcare, Banking, Insurance, Education, IT and Entertainment Industry
- ☞ Ethics in Services Marketing: Meaning, Importance, Unethical Practices in Service sector

INTERNATIONAL AND GLOBAL STRATEGIES IN SERVICES MARKETING

Before deciding on specific marketing activities, organizations must better understand their global strategy. *Global strategy* is to array the competitive advantages arising from location, world-scale economies, or global brand distribution, namely, by building a global presence, defending domestic dominance, and overcoming country-by-country fragmentation. In order to develop a marketing plan and engage in the International Planning Process, the following conceptualizations can be developed by marketers to see if and how global marketing efforts should be made.

Implications of the three definitions within global strategy:

- **International strategy:** the organization's objectives relate primarily to the home market. However, we have some objectives with regard to overseas activity and therefore need an international strategy. Importantly, the competitive advantage – important in strategy development – is developed mainly for the *home* market.
- **Multinational strategy:** the organization is involved in a number of markets beyond its home country. But it needs distinctive strategies for each of these markets because customer demand and, perhaps competition, are different in each country. Importantly, competitive advantage is determined *separately for each country*.
- **Global strategy:** the organization treats the world as largely one market and one source of supply with little local variation. Importantly, competitive advantage is developed largely on a global basis.

Why is global strategy important?

Firm need to devise Global strategy due to the following reasons

From a company perspective, international expansion provides the opportunity for new sales and profits. In some cases, it may even be the situation that profitability is so poor in the home market that international expansion may be the only opportunity for profits.

In addition to new sales opportunities, there may be other reasons for expansion beyond the home market. For example, oil companies expand in order to secure resources – called **resource seeking**. Clothing companies expand in order to take advantage of low labour costs in some countries – called **efficiency seeking**. Some companies acquire foreign companies to enhance their market position versus competitors – called **strategic asset seeking**.

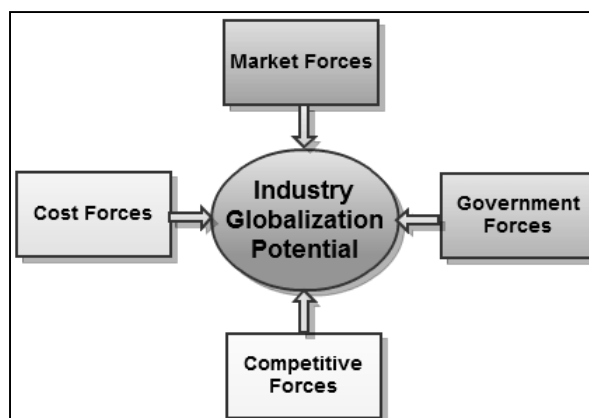
From a customer perspective: International trade should lead to lower prices for goods and services because of the economies of scale and scope that will derive from a larger global base. For example, Nike sources its sports shoes from low labour cost countries like the Philippines and Vietnam. In addition, some customers like to purchase products and services that have a global image. For example, Disney cartoon characters or 'Manchester United' branded soccer shirts.

From the perspective of international governmental organizations like the World Bank: The recent dominant thinking has been to bring down barriers to world trade while giving some degree of protection to some countries and industries. Thus global strategy is an important aspect of such international negotiations.

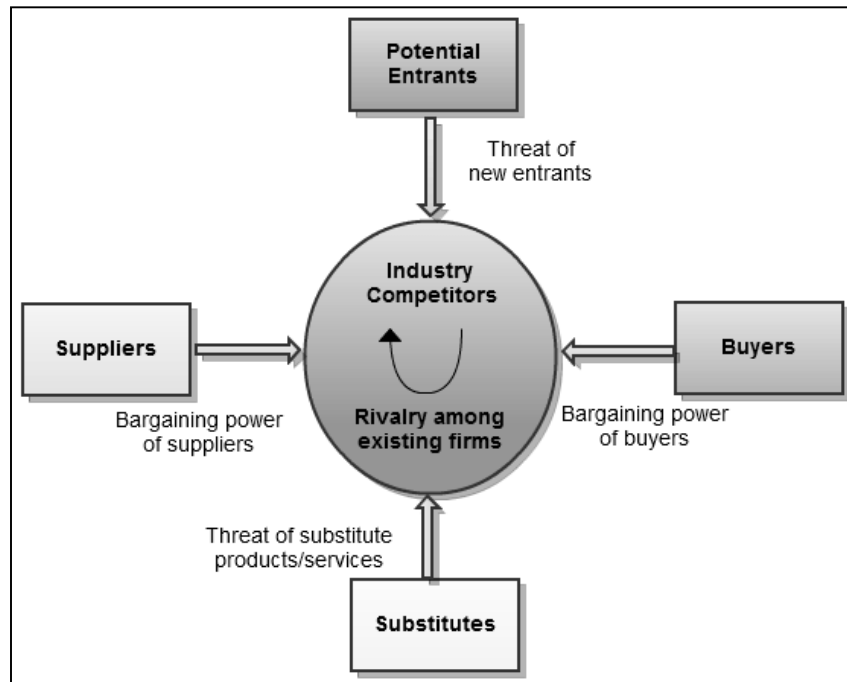
From the perspective of some international non-governmental organizations: The global strategies of some multinational companies are regarded with some suspicion. Such companies have been accused of exploiting developing countries – for example in terms of their natural mineral resources – in ways that are detrimental to those countries.

Global Industry: This can be defined as where a firm's competitive position in one country is affected by its place in other countries and vice versa. A global industry means not just a group of domestic industries, but also how each are interlinked and how rivals compete with one another worldwide. In order to understand your global industry, marketers should determine the degree of globalization of their industry.

The diagram below displays the four major forces that drive globalization potential of an industry.



Competitive Industry Structure: This concept is used to understand the nature of global strategy, and explains the dimensions that make up the competitive industry structure. These key factors are used to determine the industry's profitability. *In theory, an industry where each of these conditions are low, the greater opportunity for profitability.*



Competitive Advantage: To better understand your business on a global scale, competitive advantage must be realized in one of two ways: cost leadership or differentiation. Cost leadership strategy uses economies of scale to deliver products or services at the lowest cost to the customer. Differentiation occurs when companies are able to deliver benefits to the customer that exceed those of competitors. Differentiation is more broadly defined, and includes unique features that may involve the products/services themselves, distribution methods, or promotional techniques. Overall, consider how your business is able to create value for its customers that results in greater profits for itself.

Hyper-competition: Remember that competitive advantage is temporary, and it is especially important for global companies to focus on how they will maintain competitive advantage in all markets in the future. Hyper-competition is another concept that refers to the fact that all firms are faced with aggressive forms of competition that are tougher than oligopolistic or monopolistic competition, but also considers competition is not perfect, meaning a firm can take action to influence its market. In a hyper-competitive environment, part of global strategy is to disrupt the market on the basis of price, quality, timing, knowledge and financial resources in order to outlast competitors.

Services in the Global Economy

Global economy has been changing at an unprecedented pace and services have been in the centre of this transformation. Globalization would not have been possible without the development of information and communications technologies. Global manufacturing networks could not have been created without efficient and solid transportation and logistics services. Services constitute the very

base of each stage of production, from research and development, through design, engineering, financing, transport, distribution to marketing. Services contribute to the occurrence of value added and innovation. Nowadays, the production of services repeatedly takes place in importing countries, while foreign service suppliers generate local employment and income.

For many developed countries services constitute over 70% of GDP, while for many developing countries this share increased to 50%. With all probability, this trend will continue in the future as companies try to introduce higher value to their products and services. Moving up on the value chain is necessary to maintain profitability, and services are the key to move to its upper levels. Services, being basic inputs or intermediate goods for manufacturing and agricultural production, may contribute significantly to the economic growth, mainly through the increase in efficiency. High economic profits from the trade of manufactured and agricultural products cannot be fully reached without services' support. Similar to the effectiveness of governments and institutions, competitiveness of companies within the free market is described, to a greater extent, through the access to cheap and high-quality telecommunication, transportation, distributional, and financial services.

Nowadays, no economy can develop without the effective service infrastructure. What is more, inefficient and expensive service infrastructure may not only preclude trade transfers but also inhibit general economic growth. Effective and properly regulated financial sector leads to the transformation of savings to investments, ensuring the best funds' location for the highest profit. Profits also come from the diversity of financial products and better risk division in the economy. The improvement of the effectiveness in telecommunications generates wide economic benefits due to the fact that this sector constitutes necessary "indirect inputs" and is essential to the knowledge circulation and diffusion. Similarly, transportation services contribute to the effective distribution of products within the country and to the ability of the country to participate in the global trade, thereby helping in the realization of benefits from the integration. The mentioned sectors possess features generating development, which is the possibility of gaining knowledge through the activity, knowledge creation, increasing diversity of products and raising their quality. In spite of the fact that those sectors are leading, there are also other ones which have great significance for the improvement of economic results. For instance, business services like accounting or legal services are important for the reduction of transaction costs; in turn, software services are the foundation for the modern economy based on information. Services trade may help the countries create opportunities for the development of service production in sectors in which they have comparative advantage, therefore generate workplaces, and contribute to GDP growth and development of commercial exchange. It is particularly significant for the countries isolated from the world product market due to weak transportation infrastructure and lack of the sea access. Service export may be a vital part of developing countries' development strategies. Additionally, the importation of services may significantly improve the results by the introduction of larger competition, better practices, abilities, technologies and investment capital. The introduction of foreign service providers may cause better services for domestic consumers and improve results and competitiveness of domestic companies.

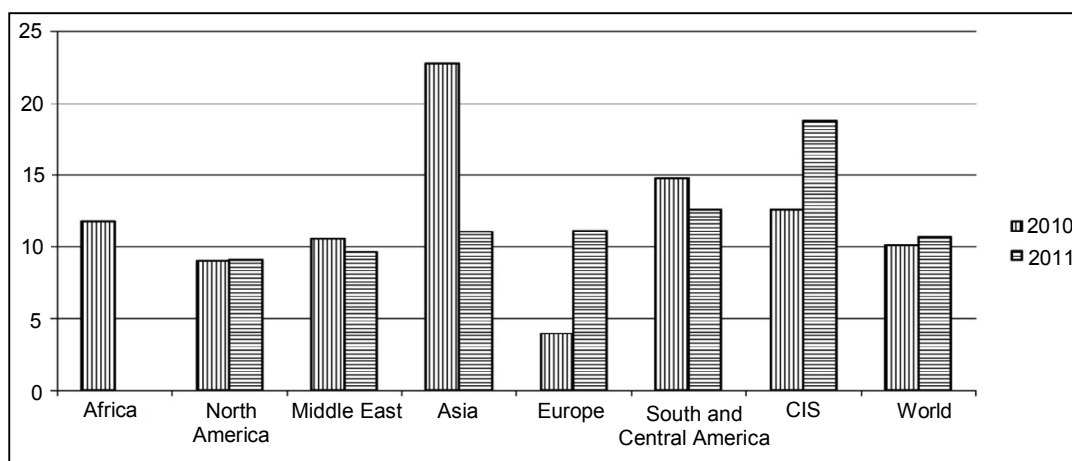
Increasing importance of services in national economies and in the international trade to a large extent stems from the increase in production of indirect services. Servicization of economic processes which has been ongoing for half of the 20th century has turned services into the most important economic sector in the majority of countries and the most dynamically developing trade component.

That caused the commencement of the post-industrial era, in which services sector plays a predominant role.

In 2011, value of the world services export increased by 11% to 417 billion USD, transcending the level before the crisis (385 billion USD in 2008). Overall, the share of services in the trade (on the basis of the balance of payment) was at the level of 18.6%, which constitutes the lowest value since 1990. Dis-aggregation of products' value helps to illustrate the importance of services in the world trade. According to World Trade Organization specialists, services constitute approximately 50% of the world trade measured on the basis of value added.

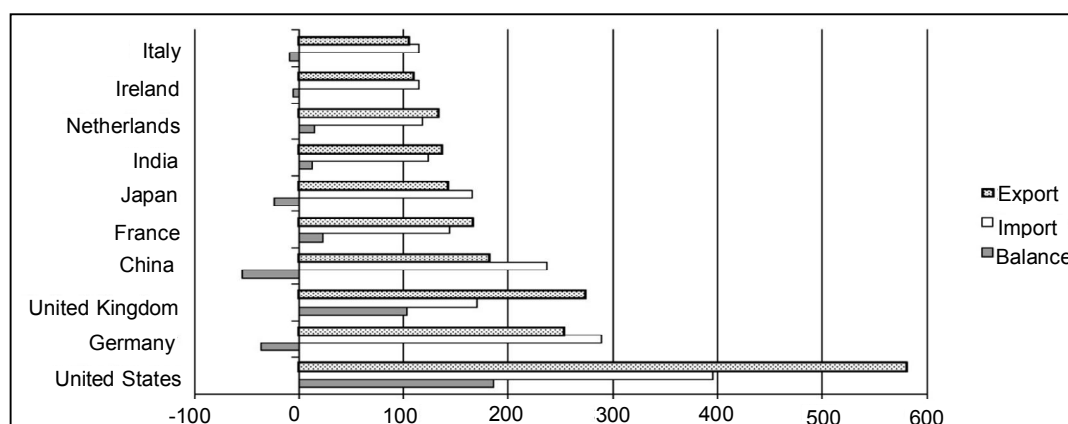
Annual growth rates of services export noted in 2011 varied significantly between particular countries and world regions. The Commonwealth of Independent States (CIS) was the most dynamic region, with the growth rate of services export at the level of 19%, whereas South and Central America was right behind it with the growth of 13%. Europe showed signs of recovery with the annual growth at the level of 11%. Reversely, Asian economics halved its growth rate, mainly due to the slower development of transportation and other commercial services. Services export of the North America increased by 9%, while African export did not develop in the aftermath of the so-called "Arab spring", which started at the end of 2010.

In 2011, the United States remained the major service economy, with the value of trade in services of over 976 billion USD, reaching an export surplus of 186 billion USD. The United Kingdom, classified on the third position, also obtained a positive trade balance, with 103 billion. Germany – the second largest service economy recorded a 36 billion deficiency. Among the leading emerging economies, China remained a net service importer, whereas India recorded a positive trade balance, with the export's value exceeding the import by 13 billion USD.



Commercial services exports by region, 2010-2011 (annual percentage change)

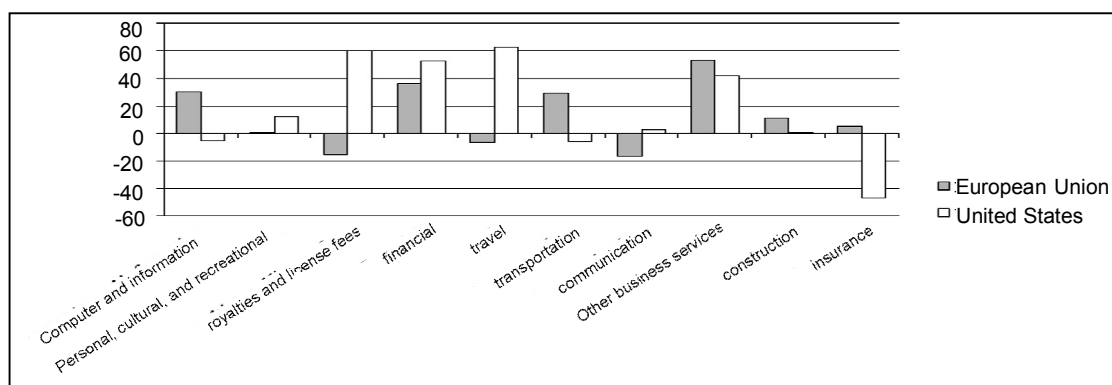
Source: own elaboration based on [WTO 2012a, p. 22].



Leading exporters and importers in world trade in commercial services, 2011 (billion USD)

Source: own elaboration based on [WTO 2012a, p. 28].

The above data include service operations among the Member States of the European Union. Provided that the internal trade is going to be excluded and the EU, treated as one entity, the largest service exporter in the world would be the European Union (784 billion USD, 24.7%), ahead of the United States (581 billion USD, 18.3%), China (182 billion USD, 5.8%), India (148 billion USD, 4.7%) and Japan (142 billion USD, 4.5%). Post the internal trade exclusion, the European Union would also be the largest service importer (644 billion USD, 21.1%), ahead of the United States (395 billion USD, 12.9%), China (237 billion USD, 7.7%), India (166 billion USD, 5.4%) and Japan (124 billion USD, 4.1%).



It is worth noting that the greatest service economies are simultaneously the leaders in goods trading, which constitutes a visible contrast in relation to the popular point of view in some countries, stating, that “the country has to choose between being successful in manufacturing or services”.

From among the three extensive service subcategories, the transportation services (9%) were the slowest developing, ahead of which the remaining commercial services (11%) and travel (12%) were ranked. Slow growth in transportation services is no surprise, considering its close relation to the goods trade category, for which the second half of 2011 was the period of stagnation.

Table 1. World exports of commercial services, 2000-2011 (billion USD, annual percentage change)

	Value	Annual percentage change			
	2011	2010	2011	2000-2005	2005-2010
Commercial services	4 170	10	11	11	8
Transportation services	860	16	9	11	7
Travel	1 065	9	12	8	6
Other commercial services	2 240	9	11	13	10

Source: own elaboration based on [WTO 2012a, p. 146].

The relevance of the respective subcategories significantly varies among the regions. In North America, Europe and Asia, the vast export share falls within other commercial services, which constituted over half of the services export in 2011. The largest share in this subcategory was made by other business services, royalties and license fees. Travel represented 47.3% of service trade in Africa, 44.3% in the Middle East and from 36.3% in South and Central Americas. For The Commonwealth of Independent States, transport services were the most important subcategory, constituting 38.8% of this region's export in 2011.

Table 2. Commercial services exports by category and by region, 2011 (mld USD)

Region	Commercial services		
	Transportation services	Travel	Other commercial services
Africa	24	40	21
North America	93	179	400
South and Central America	29	47	54
Asia	239	291	559
Middle East	28	51	35
Europe	409	437	1134
European Union (27)	373	377	1031
Commonwealth of Independent States	37	22	36

Source: own elaboration based on [WTO 2012a, pp. 147, 153, 158].

Services are becoming increasingly important for the trade of mature economies and although there are some concerns regarding the negative impact of off-shoring, these countries generate a growing surplus in services trade, especially in knowledge- -intensive services (0.7% GDP in 2008). Export of labour-intensive services, particularly of travel and transportation services, has increased respectively by 5% and 6% per annum in the years 2000-2009. However, export of services based on knowledge, which include royalties and license fees, financial services and other business services, has grown twice as quickly, i.e. by 11%. Export of business services of mature economies is expected to continue to grow and it may even exceed the significant increase in exports of emerging markets. For exports of mature economies, the most promising categories of services include architectural and

engineering services, technical advice, as well as legal, management and accounting services. In 2009, services accounted for one-fourth of mature economies' exports, which corresponded to about 16 million jobs. The share could rise to one-third by 2030 if services remain competitive. A study carried out by McKinsey Institute defined two possible scenarios: "high-competitiveness", in which case export of services grows along with the global demand for them, and "low-competitiveness", in which export of services grows along with the global demand for services from mature economies only. According to these scenarios, by 2030 the export of mature economies' services will represent from 6 to 11% of their GDP. This is going to be achieved without making the assumption that trade grows faster than global demand. This assumption has been made in the past, e.g. in the majority of business and financial issue. While the 25 per cent share of services in exports seems to be much higher than many people expected, this ratio is in fact even more favourable if one takes into consideration the value added embedded in exports. A study of the German economy, 81% of which exports is from manufactured goods, showed that those goods contained around 23 per cent service inputs, and that their production is almost in one-third based on the imported content. Service exports, in contrast, come almost exclusively from domestic value added. On the whole, exports of value added services account for 13 per cent of German GDP, which is almost equal to the 15 per cent of GDP exports of manufacturing value added. In case of the United States and Great Britain, value added from service exports, both direct and embedded in goods exports, has already exceeded the value that manufacturers add to total exports.

The role of services reform in developing countries is widely recognized. The past two decades have seen exciting changes with developing countries emerging as exporters of services. India's success is well known: exports of software and business process services contributed about 33 per cent of India's exports in 2007-2008. Less well known is that a large number of other developing countries are also successfully exporting services, both within their own regions and to high-income countries.

During the years 1980-2010, developing countries service exports grew faster than those of the developed countries for the period as a whole (9.7 per cent compared to 7.7 percent) and for the last twenty years; their growth was only marginally lower in the 1980s. The average growth of service exports was about 9.6 per cent for high-income countries, 7.2 per cent for low-income countries, and 10.3 per cent for lower-middle-income countries. The share of developing countries in exports of world services increased from 16.2 per cent in 1980 to 26.4 per cent in 2010. The developing countries export not only traditional services, such as transport and tourism, but also modern services, especially skill-intensive services such as computer and information services and other business services

The characteristic features of service exports from developing countries include the following:

Such exports are not concentrated in a few areas but already span a wide variety of services.

- Developing countries have diversified their service export markets. The average developing country is reported to have 33 export markets.
- South - South service trade is important, with developing countries accounting for two-thirds of the service export markets of other developing countries.
- The most widely used modes of supplying services from developing country are consumption abroad and movement of natural persons. Recent studies suggest that the importance of cross-border exports from developing countries is also increasing.
- The success that some countries achieved in service export seems not to be linked with their performance in trade in goods or their industrial development. In fact, exports of services

from many developing countries are growing faster than their exports of goods, which contributes to the diversification of their exports.

In order to explain the determinants of developing countries' participation in the export of services one should point out the role of factors such as:

- A country's factor endowments, especially of human capital, including skills and entrepreneurial ability.

A number of service sectors, ranging from business services to banking, and telecommunications, are significantly more skill intensive than most goods production. Endowments of human capital can, therefore, be a critical determinant of output and export of services.

- Infrastructure, especially telecommunication networks that facilitate the delivery of services. Telecommunication growth is the most powerful symbol of vitality of the service sector, while at the same time being critical for further development of other services. Modern ICT has reduced the cost of delivering many cross-border services from infinite to virtually zero. Therefore, electronic infrastructure would understandably increase service trade.
- **Institutional environment:** Certain institutions may play a significant role in the development of service sectors for three reasons: informational problems are more acute in many inter-mediation and knowledge-based services, natural monopoly or oligopoly is a feature of the "locational" services (which require specialized distribution networks), and relationship-specific investments must be made by both consumers and suppliers in customized services.

Off-shoring of services has rapidly increased particularly over the last decade. While this phenomenon constitutes a relatively small share of the world trade, more and more enterprises in the growing number of sectors and countries embrace the possibility of specialization and internationalization of services created by the development of information and communications technology and the liberalization of trade.

Table 3. Categories of services affected by offshoring

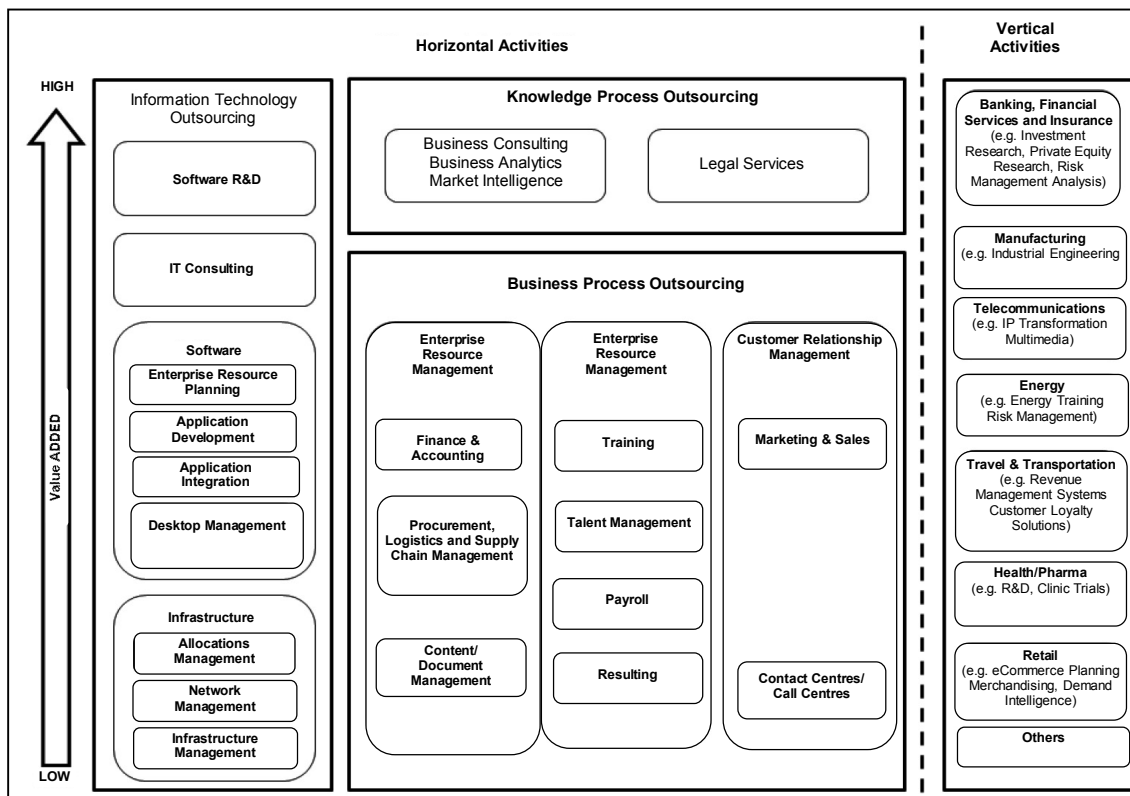
Service category	Example of service activities
IT Services	Programming, systems integration, application testing, IT infrastructure management and maintenance, IT consulting, software development and implementation services, data warehousing, and content management and development
ICT-enabled services Front office services Back office services KPO	Call centres and customer contact centres (inbound and outbound) Data entry, human resources, payroll, finance and accounting, procurement, transcription Financial analysis, data mining, engineering, research and development, insurance claims processing, architectural design, remote education and publishing, medical diagnostics, journalism

Source: [CeBIT 2010, p. 7].

Off-shoring of services constitutes a serious challenge and is a substantially more complicated process than outsourcing of manufacturing processes. The comparison of costs of labour between the sending and receiving country is an important factor which determines a de-localization of certain

activity – both service related and manufacturing related. However, off-shoring of services brings about many challenges which do not exist in case of the off-shoring of production activity. These challenges are the result of differences between services and goods. Distinctive features of services, such as the client involvement within the process of service provision, high degree of service adjustment to clients' needs, the need of proximity between the supplier and the customer raise the challenge of off-shoring in many areas.

Contrary to the manufacturing where products are material and their specification precise, many service processes contain non-material elements which hamper their specification and standardization. Language and cultural differences which accompany the off-shoring cause the intensification of this issue, which in turn may lead to the misconception of the requirements of the entity that shifts the service activity to another country. Furthermore, the non-material nature of services makes objective assessing the outcome as well as monitoring of the quality of the service harder.



This diagram captures the selected vertical services – specific for particular industry. Each industry has its own value chain. Within each of these chains, there are associated services that can be off-shored. This graphical depiction of vertical activities does not imply value levels. Each industry may include ITO, BPO and advanced activities.

Services value chains are in the assumption similar to those manufacturing ones, although they may differ in the way they operate. An example of the services value chain, being the subject of off-shoring encompasses information technologies, services based on knowledge and business services,

for which the demand has dramatically increased over the last two decades, mainly in the USA, Canada, EU and some Asian and Pacific countries. The companies from the countries which provide services indicate tendencies of specialization at various stages of this process. Developing countries which wish to take over share of service value chains find it easier to grasp one or more activities within the value chain, than try and compete in the entire spectrum.

Within the value chain of services being the subject of off-shoring the entire sector has been divided into services which may be delivered in all branches (horizontal services) and those specific to a certain branch (vertical services). Within the former group, all activities are related to the support of general business functions, while the second one contains activities, which may be shifted abroad by various branches, but that are not related to general business functions and thus require specific know how.

Within the scope of horizontal services the information technologies form a low, medium and high segment of the value chain; business services encompass activities in the low and medium segment, while services based on knowledge are considered as the highest segment categories within each of the three segments is indicated by the component of the higher added value, i.e. research and development of software add more value than network management in the value chain of information technology. Similarly, finance and accounting add more value than documentation management within the value chain of business services.

Transnational Marketing

The **transnational strategy** is a combination of the global strategy, the multinational strategy and the international strategy. Each of the above mentioned strategies allow organizations to conduct businesses at offshore locations and have unique features such as –

Global

1. Strong central control
2. Economies of scale through global manufacturing
3. Standardization

International

1. Central coordination
2. Local decisions taken by local subsidiaries
3. Allocations of resources done by parent company

Multinational

1. The control of the region is with the subsidiary
2. Loose central control

The transnational strategy combines the above mentioned strategies to in order to facilitate a firm's global business activities through coordination, cooperation and interdependence. The transnational strategy relies on the coordination of the centre, the operation units and the local subsidiaries for efficient and effective reach. The transnational strategy captures the benefits of central coordination of the global strategy along with the local responsiveness of the multinational and international strategy.

Example: HUL and HCCB are subsidiaries of their parent companies which follow a transnational strategy. The operations are locally controlled but centrally coordinated and interdependence among other subsidiaries is also present.

The international strategy employed to enter foreign markets should match company's internal resource capabilities and the market characteristics of the target host countries. Consequently, before committing to an international strategy, conduct a thorough market analysis. Use the SWOT analysis technique -- an acronym for strengths, weaknesses, opportunities and threats -- to ensure that your selected international strategy aligns with company's internal resources and the host country's market potential.

Transactional strategies are compromises between multi-domestic strategies and global strategies. Transnational strategies centralize some strategic decisions while delegating others to local market managers. Though there are no set rules in transnational strategies on which decisions to centralize and to decentralize, strategic decisions regarding "promotions," including marketing communications, typically devolve to local managers. Hence, marketing communications under a transnational strategy normally reflects the language and cultural idiosyncrasies of host countries while product, placement and price issues often remain centralized.

Transnational strategies mainly use cultural, emotional and behavioral insights about host country consumers to persuasively communicate user benefits and value propositions in ways that have resonance with local audiences. As such, effective local marketing communication strategies typically play a principal role in driving the effectiveness of transnational strategies. The process of developing effective marketing communications strategies starts with dividing total markets into identifiable and actionable market segments. The goal is to identify descriptive characteristics and understand the cognitive and emotional hot-buttons that trigger purchase decisions among target market segments. When done well, market segmentation puts transnational strategies on solid foundations by facilitating the development of cogent and effective marketing communication strategies described in ensuing marketing plans.

Moving from Domestic to Transnational Marketing

There are many market-entry strategy options. Deciding which method is most appropriate depends heavily on the planning process. It is suggested to analyse the costs and benefits of each before making a decision.

- **Exporting:** Exporting accounts for around 10 percent of global economic activity. Direct exporting occurs when a company sells to a customer in another country, and is most common with company's taking their first international step. Indirect exporting usually means that the company sells to a buyer (importer or distributor) in the home company. Indirect and direct exporting can be achieved by using The Internet or Direct Sales methods.
- **Contractual Agreements: Licensing and Franchising:** This method involves long-term, non-equity associates between a company and another in a foreign market. Licensing agreements mean establishing a presence in a foreign market without large capital investments. Instead, patent rights, trademark rights, and rights to use technology and operational processes are given to another company. Franchising is a form of licensing in which the franchiser supplies a standard package of products, systems and management services and provides more support in the business overall.

- **Strategic International Alliances:** A strategic international alliance (SIA) is a business relationship established by two or more companies to cooperate out of a mutual need and to share risk in achieving common goals. *International Joint Ventures and Consortia* are two types of SIA's. International Joint Ventures are characterized as follows: (1) JV's are established, separate, legal entities, (2) They acknowledge intent by the partners to share in the management of the JV, (3) they are partnerships between legally incorporated entities, such as companies, chartered organizations, or governments and not between individuals and (4) equity positions are held by each of the partners. Consortias are similar to joint ventures but differ in two distinct characteristics. First, they typically involve a large number of participants and second, they frequently operate in a country or market where no participant is currently active. Basically, consortias are formed to pool financial and managerial resources and reduce risk. It is common for consortias to form in construction projects where there a large number of major contractors with different specialties. By establishing a separate company, negotiation and production can occur more readily.
- **Foreign Direct Investment:** Investment with a foreign nation is another way for a company to develop and enter a market. Investing locally has many benefits, including: taking advantage of low-cost labor, avoiding high import taxes, reducing high costs of transportation to a new market, gaining access to raw materials and technology, or as a means of gaining market entry altogether. The most common form of foreign direct investment is when companies establish manufacturing operations throughout the world. This trend in FDI will continue to increase as barriers preventing free trade are eliminated and companies can do business wherever it is most cost effective.

Factors favouring Transnational Strategy

The various factors favouring Transnational Strategy are as follows –

1. **Economies of scope:** the cost savings developed by a group when it shares activities or transfers capabilities and competencies from one part of the group to another.
2. **Economies of scale:** the extra cost savings that occur when higher volume production allows unit costs to be reduced – for example, an Arcelor Mittal steel mill that delivers lower steel costs per unit as the size of the mill is increased.
3. **Global brand recognition:** the benefit that derives from having a brand that is recognized throughout the world e.g. Disney.
4. **Global customer satisfaction:** multinational customers who demand the same product, service and quality at various locations around the world – for example, customers of the Sheraton Hotel chain expect and receive the same level of service at all its hotels around the world.
5. **Lowest labour and other input costs:** these arise by choosing and switching manufacturers with lower labour costs – for example, computer assembly from imported parts in Thailand and Malaysia where labour wages are lower than in countries making some sophisticated computer parts (such as high-end computer chips) in countries like the USA
6. **Recovery of research and development (R&D) costs and other development costs across the maximum number of countries:** new models, new drugs and other forms of research often amounting to billions of US dollars. The more countries of the world where the goods can be sold means the greater number of countries that can contribute to such costs. For

example, the Airbus Jumbo A380 launched in 2008 where development costs have exceeded US\$ 10 billion.

7. **Emergence of new markets:** means greater sales from essentially the same products.

TOURISM MARKETING

Introduction to Tourism

Tourism, being one of the largest industries, plays a key role in achieving the socio-economic goals of the development plans of a nation. It is an important service-oriented sector which has made rapid strides globally in terms of gross revenue and foreign exchange earnings. It is a composite of service providers, both public and private, which includes travel agents and tour operators; air, rail and sea transportation operators; guides; owners of hotels, guest houses and inns, restaurants and shops; etc. They are involved in meeting the diverse interests and requirements of domestic and international tourists. The tourism industry provides incentives to foster the quality of environment, generates more employment opportunities (particularly in remote and backward areas) as well as develops necessary infrastructure facilities like roads, telecom and medical services, in the economy.

Facts and figures: From 1950 to 2005, international tourism arrivals expanded at an annual rate of 6.5%, growing from 25 million to 806 million travellers. The income generated by these arrivals grew at an even stronger rate reaching 11.2% during the same period, outgrowing the world economy, reaching around US\$ 680 billion in 2005. While in 1950 the top 15 destinations absorbed 88% of international arrivals, in 1970 the proportion was 75% and decreased to 57% in 2005, reflecting the emergence of new destinations, many of them in developing countries.

Tourism Statistics

- Tourism is one of the world's fastest growing industries at present and holds the status of the world's number one industry.
- The tourism industry as a whole is presently estimated to earn over US\$ 3.5 trillion worldwide.
- The industry creates a job every 2.4 seconds with every one of those direct jobs creating another 11 indirect ones.
- Spending on tourism amounts to 5%-10% of total consumer, spending in a year worldwide.
- India's share of the total market is a pittance at 0.51%. The non-tourist countries like Malaysia and Indonesia get much more tourists than India.

The tourism sector of Indian economy is at present experiencing a huge growth. The tourism sector of Indian economy has become one of the major industrial sectors under the Indian economy.

The tourism industry earns foreign exchanges worth ₹ 21,828 crore. Previous year the growth rate of the tourism sector of Indian economy was recorded as 17.3%.

Types

1. **Ecotourism:** Ecotourism also known as ecological tourism, is a form of tourism that appeals to ecologically and socially conscious individuals. Generally speaking, ecotourism focuses on volunteering, personal growth, and learning new ways to live on the planet. It typically

involves travel to destinations where flora, fauna, and cultural heritage are the primary attractions. Responsible ecotourism includes programmes that minimize the negative aspects of conventional tourism on the environment and enhance the cultural integrity of local people. Therefore, in addition to evaluating environmental and cultural factors, an integral part of ecotourism is the promotion of recycling, energy efficiency, water conservation, and creation of economic opportunities for the local communities.

2. **Medical Tourism:** Medical tourism can be broadly defined as the provision of 'cost-effective' private medical care in collaboration with the tourism industry for patients needing surgical and other forms of specialized treatment. India is considered as the golden spot for treating patients mostly from the developed countries and Far East for ailments and procedures of relatively high cost and complexity. India is also aggressively promoting medical tourism in the current years and slowly now it is moving into a new area of "medical outsourcing", where sub- contractors provide services to the overburdened medical care systems in Western countries. Government and private sector studies in India estimate that medical tourism could bring between \$1 billion and \$2 billion US into the country by 2012.
3. **Domestic Tourism:** In domestic tourism, people travel outside their normal domicile to certain areas within the country as compared to travelling outside the boundaries of a country in international tourism. The tourist activity of residents of a country within their own countries, which does not cross the boundaries of the country, is known as internal or domestic tourism.

The domestic travel becomes an easier affair. Since the travel takes place within the limits of the boundaries of a country. The barriers of currency exchange, language, passport, visas, health, documentation, etc., are not to be faced by the domestic tourist.

The domestic consist is generally regarded as a person travelling for the purpose other than exercising a gainful activity of settling at the place visited. There is not yet internationally accepted definition of domestic tourism. For statistical purposes the term 'domestic tourist' designates any person who travels within the country where he resides to a place other than his usual place of residence for at least 24 hours or one night for the purpose other than exercising a gainful activity and which may be classified under one of the following headings.

- (a) Leisure, i.e., recreation, holiday;
- (b) Business family, mission, meeting, etc.

There are three elements which are commonly used in defining domestic tourism. These elements are:

- Place of residence
- Geographic setting of travel, and
- Duration of travel

Two further elements are common in most definition of domestic tourism:

- Distance travelled, and
- Travel motivation

With to distant travelled, some countries specify a minimum distance. This may vary between two and 100 miles. The concept of travel motivation is considered important by most countries. The domestic tourist is considered as a person travelling for a purpose other than exercising a gainful activity at the place visited.

CHARACTERISTICS OF TOURISM INDUSTRY

1. **Inflexibility:** The tourism industry is highly inflexible in terms of capacity. The number of beds in a hotel or seats on a flight is fixed so it is not possible to meet sudden upsurges in demand similarly, restaurants tables, hotels beds and flights seats remain empty and unused in periods of low demand.
2. **Inventory/Perishability:** It is related to the fact that travel products are intended to be consumed as they are produced. For example, an airline has seats to sell on each flight; a hotel has rooms to sell for each night. If the airline is not able to sell all its seats on its flight, or a hotel is not able to sell its rooms for the night then the opportunity to sell the product is lost forever. Service sector cannot keep inventory like products. To overcome this problem, the travel industry has come up with various marketing strategies. One is to overbook. An airline overbooks its seats to a certain extent in anticipation that even though certain customers do not turn up but the flight will be fully seated. Another strategy is multiple distributions. For example, a customer can buy an airline ticket from an airline, tour operator or from a travel agent. The chances of perishability are reduced. If the tourist cannot visit the place, the opportunity is lost. Hence, this becomes one of its important characteristics.
3. **Inconsistency:** A general norm is that in Travel and Tourism industry the product or the package of the tourism can be standardized, i.e., for example of two days three nights in so and so hotel, but the actual experience of consuming this package is highly inconsistent. We hear a lot of travel stories which becomes a portrayal of a lot of bad experiences for example the tourist guide may not be good, the hotels lodging and boarding was bad, etc., Therefore, there is high level of inconsistency prevailing.
4. **Intangibility:** Travel products cannot be touched as they include flight experience on an airplane, cruise on an ocean liner, a night's rest in a hotel, view of the mountains, a visit to a museum, a good time in a night club and much more. These products are experiences. Once they have taken place they can only be recalled and relished. The tangible products on an airplane, a bed in a hotel, food in a restaurant are used to create the experience but these are not what the customer is seeking. The customer wants intangible experience like pleasure, excitement, relaxation, etc. The tangible products that are purchased provide the access to intangibles.
5. **Inseparability:** Most travel products are produced and consumed at the same place and at the same time. This is the opposite of the tangible products, which are produced at a different place and time and consumed at a different place and time. In contrast, most travel products are sold first and then simultaneously produced and consumed. For example, an airline passenger consumes the flight as it is being produced, and a hotel guest uses a hotel room as it is being made available for the night's sleep. Thus, there is simultaneous consumption and production. This creates certain inter-dependence between suppliers and customers as the interaction between the supplier and customer takes place on the supplier's premises. The interaction shapes the travel experience. For example, the customers could not take the cruise home with them; in fact they have to leave their home.

MARKETING MIX

Product

Product is the combination of tangible and intangible elements. The tourism product, which is mainly the destination, can only be experienced. The views of the location travel to the destination, the accommodation and facility as well as the entertainment at the destination all form the tourism product. Thus, it is a composite product combination of attraction, facilities and transportation. Each of these components has its own significance in the product mix and in the absence of even single components; the product mix is incomplete Components of Tourist Product.

Product Mix

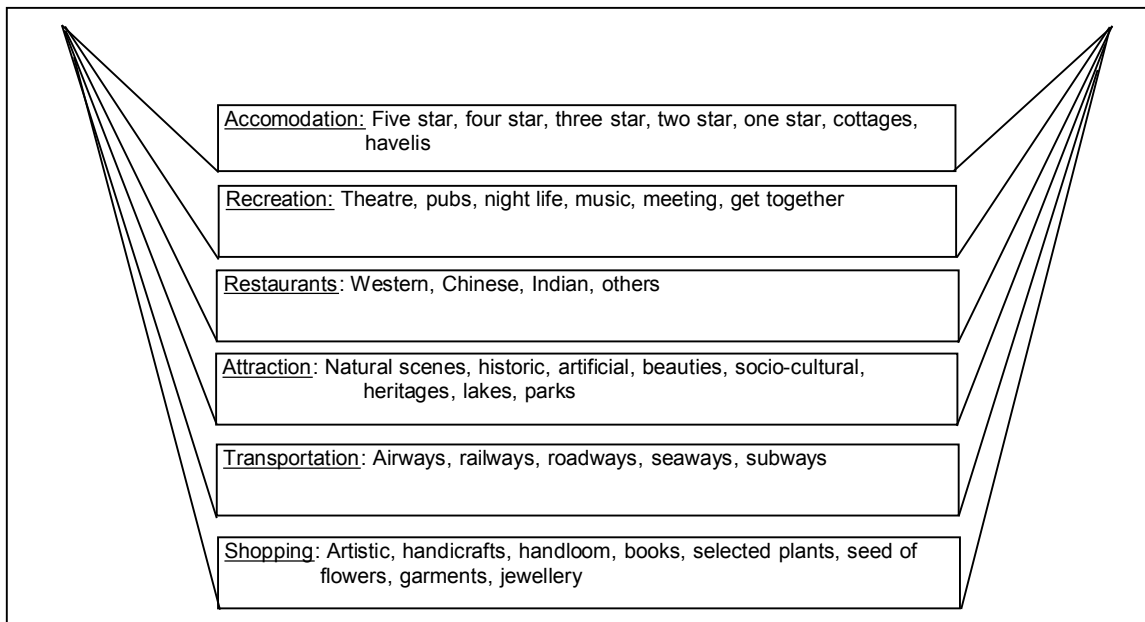


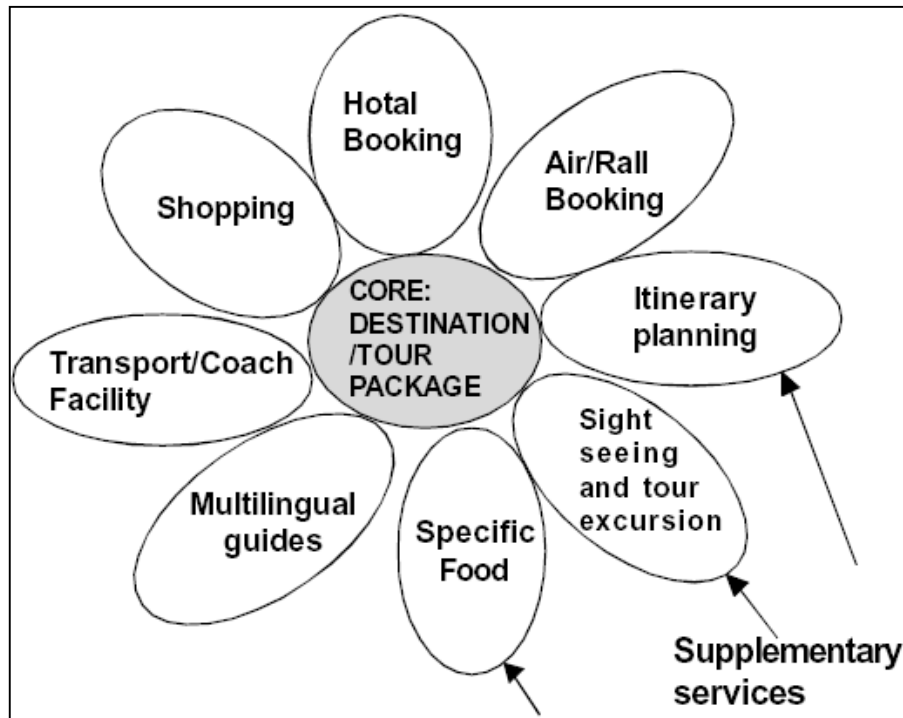
Fig. 5.1

Product Levels

	Benefit	Meaning	With Respect to the Travel and Tourism Industry
1.	CORE BENEFIT	The fundamental benefit or service that the customer is buying	Travelling
2.	BASIC PRODUCT	Basic, functional attributes	Ticketing, hotel reservation
3.	EXPECTED PRODUCT	Set of attributes/conditions the buyer normally expects	Customer friendliness, good food
4.	AUGMENTED PRODUCT	That meets the customers desires beyond expectations	Prompt services, comfortable and convenient trip, spectacular sights, music
5.	POTENTIAL PRODUCT	The possible evolution to	Totally customized tour packages,

		distinguish the offer	A grade service at every stage
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Service Flower



Price

In pricing decisions, the product or the service mix of the tourist organization is important. They have to set prices in line with the quality of services to be made available to the customers and the type of customers they are targeting.

Methods of Pricing in Tourism Industry

- **Cost-based pricing:** The price charged must be sufficient to cover fixed and variable cost to have a reasonable return on investment. Organization resort to price fixation at marginal cost to attract more customers.
- ● **Demand-based pricing:** Refers to balancing costs and revenues. This pricing will suit to the seasonal characteristics as at peak times many leisure facilities have excess demand so firms use high price as tactic.
- **Competition-based pricing:** In case of new tourism product, if the strategic objective is market penetration, then prices must be set very competitive to attract more customers. In case of niche strategy, the price should portray this aspect complimented with additional benefits of the service offer.
- **Multisegment industry:** Pricing in tourism is a complex process. It is a multisegment industry. Pricing includes the prices of other services like Air travel, Bus, Railways, Hotels, etc. All are included in tourism package. E.g., Air price changes tourism package also changes, if Hotel charges change then also tourism package changes.

- **Internal and external factors:** Pricing decisions are influenced by internal factors like pricing policy of the company, and external factors like the destination itself. The tourism professionals are supposed to watch the emerging trends in both the markets.
- **Discounts:** The tourism packages may include discounts for cash payments, seasonal discounts, trade discounts, etc. But while offering the discounts, it is not to be forgotten that it may also create image problems since some of the value sensitive tourists may doubt the quality.
- **Geographic location:** Geographical location of the destination affects the pricing decision. Different locations differ in prices depending upon the standard of living there, the transportation in that place, the monetary policy of the place, the different tax system, etc.

Place

Place or distribution management is concerned with two things such as availability and accessibility.

- **One-stage system:** The one tier or the one-stage system focuses on the direct selling of services by the providers to the ultimate users, such as the airlines selling directly to users through their own offices and reservation counters.
- **Two-stage system:** In the two-tier or a two-stage system there is an involvement of middlemen between the providers and the users, i.e., the Travel Agent. The traveller while receiving professional services can also buy other products like airline ticket, hotel accommodation and transportation facilities. Besides he/she gets a single bill for all the services.
- **Three-stage system:** The three-tier or the three-stage system involves two middlemen, a retail travel agent and a wholesaler or a tour operator.
- **Four-stage system:** This system is similar to the three-stage system, but it has an additional middlemen. Known as Specialty Chancellor he is found instrumental in the development of tour packages.

Promotion

Creation of awareness has a far-reaching impact. The tourist organizations bear the responsibility of informing, persuading and sensing the potential tourists in a right fashion. The marketers need to use the various components of promotion optimally so that they succeed in increasing the number of habitual users. Promotion helps in maximizing the duration of stay, frequency of visit by offering new tourist products in the same country to areas, which have remained untapped or partially tapped. The various dimensions of tourism promotion are as follows:

Advertising: Advertisement gives important information to the actual and potential tourists. Its coverage is wide. Advertising is aimed at the public to create awareness of the travel offers available on a resort and its attractions to influence their business decisions. Intangibility can be compensated with the help of visual exposure of scenes and events. We can project hotel bedrooms, well-arranged restaurants and cafeterias, swimming pools etc.

Publicity: It focuses attention on strengthening the public relations measures by developing a rapport with media people and getting their personalized support in publicizing the business. It helps

in projecting the positive image of tourist organizations since the prospects trust on the news items publicized by the media people. The publicity programme include regular publicity stories and photographs to the newspapers, travel editors, contact with magazines on stories, etc., advertising is a part of publicity.

Sales promotions: Sales promotion measures are the short-term activities seeking to boost sales at peak demand periods to ensure that the firms obtain its market share and are used to help launch a new product or support an ailing or modified one. The tool of sales promotions is designed to appeal particularly to those customers who are price-sensitive. There are a number of techniques to promote sale and the tourist professional need to use them in the face of their requirements *vis-à-vis* the emerging trends in the business. Eg: In the tourism industry, a travel company offers give-aways to their clients, such as flight bags, wallets for tickets.

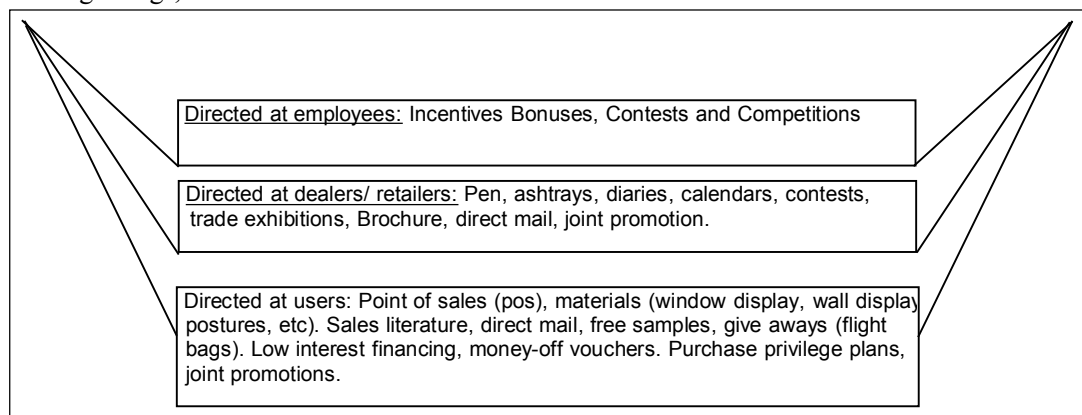


Fig. 5.3

Word-of-mouth Promotion: In the tourism industry it is found that the word-of-mouth promoters play the role of a hidden sales force, which helps the process of selling. The high magnitude of effectiveness of this tool of promotion is due to high credibility of the channel, especially in the eyes of the potential tourists. The sensitivity of this tool makes it clear that tourist organizations need to concentrate on the quality of services they promise and offer. The marketers or the tourist organizations need to keep their eyes open, identify the vocal persons or the opinion leaders and take a special care of them so that they keep on moving the process of stimulating and creating demand.

Personal Selling: The development of travel and tourism has been possible due to well-educated and trained sales personnel. The development of tourism business has been influenced by the services rendered by the travel agents and travel guides since they work as information carriers. Personal selling is the personal presentation of a tangible product or intangible services or ideas to the customers. It is important to mention that in the tourism industry, the personnel who attend tourists form an essential ingredient of the product, such as sales personnel are found responsible for dealing with customers behind the counter, the resort representatives cater to the need of tourists when they reach the destination, etc., all of them play a vital role in ensuring that the tourism products satisfy the tourists.

Telemarketing: In tourism, the travel agents, offices of airways, receptionist, and secretaries can't work efficiently if the telephonic services are not up to the mark. Also recruiting a person considered to be professionally sound, personally-committed sales personnel having an in-built creativity, innovation and imagination is very important.

Exhibitions: The participants include state and national tourism promotion boards, travel agents and tour operators, airlines, car rentals, cruise liners, holiday financiers, technology providers, hotels and resorts, educational institutions in the field of hospitality and tourism. Over the years the participation of foreign tourism promotion boards like the Dubai Tourism and the Mauritius Tourism, etc., has increased in order to aggressively promote their respective countries.

People

It plays a most important part in tourism.

In people, *local people* are very important, that how they treat tourist. The travel agents, guides, staff of travel companies, sales staff, etc., they are the people. Travel company also like Railways, Air, etc., is included in people. Normally a tourist assures a tourism quality like hotels, travel company.

The tour operators who attend to the needs of the tourists form an essential ingredient in tourism marketing. The sales personnel are responsible for dealing with the customer behind the counter. The airline and transportation crew interact with customers while travelling. The resort or hotel representatives enter to the needs of the tourist when they reach the destination.

The tourist guides, who interact with the customers at the tourist location, all form the people element in tourism marketing. These contract persons must be trained on inter-personal skills as well as knowledge of the product. In the tourism industry the travel agents and the travel guides are the two most important people who speak a lot about the industry. Hence, it is imperative that they have to be at their best at all times. Travel guides especially, are expected to have a lot of patience, good sense of humour, tact to transform the occasional tourists into habitual ones, thorough knowledge of the places, linguistic skills, etc.

MARKET SEGMENTATION

Though there are a number of bases for segmentation of tourists, one of the most important is lifestyle. Travelling decisions are fantastically influenced by changing lifestyles. They are also affected by other factors such as level of income, availability of leisure time, etc. Such segmentation is useful when deciding the offerings to target a particular segment.

Base of Segmentation	Categories
	Mass market Popular market Individual market
Demand	Primary Secondary
Geography	International On the basis of regions, cities, etc.
Psychography	Lifestyle Personality motive Knowledge
Demography	A g e Sex Religion
Socio-economic	Rich, Poor Rural, Urban Literate, Illiterate
Purpose	Business Travel Cultural Tourism Common Interest Convention

A g e	Teen s
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For example:

- The *mass market* consists of vacationists that travel in large groups and prefer all-inclusive tours, generally conservative.
- The *popular market* consists of smaller groups going on inclusive or semi-inclusive tours. This group includes retired people.
- The *individual market* consists of chairmen, senior executives, etc.
- As the *lifestyle* changes, consumption of services might change. For example, a newly married couple might prefer romantic holidays, but once they have children they would prefer family vacations where there are plenty of activities to entertain kids.
- *Teens* and *youth* might prefer adventure holidays, whereas senior citizens would probably prefer more relaxing vacations.

Physical Evidence

The tourist attraction, which is an expensive for the customer must be tangibilised with the help of tangible items like, comfortable seats while travelling, layout, and design of the resort, natural service scope, etc., the sign posts that indicate directions, route maps, information regarding rules and regulations of the tourist spot and the sign regarding the public utilities like toilets, telephone booth also form a part of the physical evidence.

Printed matters such as brochures also play an important role in the development of tourism. As the product, in tourism is intangible. There is a need to describe fully the product, which is done by providing an elaborate brochure, which shows how different elements of the programmes are carefully planned to include all necessary information to make holiday establishes expectation of quality value for money, product image and status, which must be matched when the product is delivered.

Process

The operation process of the tourism firm will depend on the size of the tourism firm. The sequential steps involved in the delivery of the tourist products are:

- **Provision of travel information:** The information regarding the travel is provided at a convenient location where the potential tourist seeks clarification about his proposed tour.
- **Preparation of itinerants:** It is a composition of series of operations that are required to plan a tour.
- **Liaison with providers of services:** Before any form of travel is sold over the counter to a customer; contracts have to be entered with the providers of various services including transportation companies, hotel accommodation, coaches for local sightseeing, etc.
- **Planning and costing tours:** Once the contracts and arrangements are entered into, then the task of planning and costing the tour, this will depend on the tour selected as well as individual requirements.
- **Ticketing:** The computerized reservation system has in recent years revolutionized the reservation system for both rail and air travel.

Productivity

The well known concept of five-quality dimension RATER, we hereby relate them to Travel and Tourism.

Reliability – (Information): The way and the kind of information, which is provided, by any Travel and Tourism organization to its customers is the parameter of judging the reliability of that organization. The various services provided by agency includes Planning Itinerants, Ticketing, Working out travel routes, providing information on destinations, arranging visas, making stay reservations. Here information plays a very dynamic role. Let us assume that the customer comes for booking a ticket. It is very important on the part of the service provider (travel agency) to give accurate information on all types of flight available, their fares, and new schemes going on which would in turn help customers to choose most suitable product for their travelling. Such repeated and accurate information creates of a reliable organization, i.e., in future the customer would trust the organization for any information.

Assurance – (Safety): It is one of the prime factors considered when talking about this sector. A safe travel is the top priority of any traveller. Thus, it is very important for Travel and Tourism organization to consider the safety of the tour package. The safe travel will in turn ensure the customers traveller.

Tangibles: These are the backstage elements, which help in a great way for the customers to evaluate the service. When we talk about tangible product in Travel and Tourism the first would include-

- Everyone loves a warm welcome. It really gives a good start to the whole holiday. Thus, keeping this tangible factor in mind the tourism agencies, for example, Thomas Cook always keeps in mind the Swagat of their traveller.
- Today, if you talk top any business traveller they want to be pampered silly from flat beds in business class to Wi-Fi in hotels customize the needs. These are the kind of facilities they expect. Thus, if a Travel and Tourism organization is able to provide all such demanding facilities then it adds value to its travel products and makes the product hike from standard quality level to superior quality level.
- Hygiene is also an important factor of a travel package. Clean hotel rooms and lobby create a spik and span impression of the package and add to the quality level.

Empathy – (Cooperation): A famous quote from Stephen Cowe book goes like this –"Seek to understand and then to understood" is very important. Thus, we relate it to empathy, i.e., cooperation, i.e., listen to the customers understand them and cooperate with them to come down to a solution this factor creates a very positive impression in the minds of the customers and helps the service to get a tag of its excellent service quality.

Responsiveness – (Information): This is the last element in the concept of RATER. It is related to means infrastructure. Why do we relate infrastructure to responsiveness is because how flexible is the infrastructure of Travel and Tourism organization affects the service responsiveness. For example, if you plan and book a Qualis car to travel from place A to place B and if the car breaks down then how fast can you respond by replacing it with a new car shows the flexibility of the infrastructure, i.e., the number, of cars.

Example: Founded in the year 1967 as Air Southwest Co. to fly within Texas and changed name to Southwest Airlines in 1971 was founded by Herb Kelleher. Today, it's the world's largest low cost carrier with a crew of 650 Boeing 737 Airlines and 47000 Employees, operating 3400 flights per day, earning revenue of \$ 18 bill (2015). It is the top 3 company in the most admired US company list. It provides in flight wifi internet, more knee room, fixed wing headrest, improved ergonomics, etc. to its passengers. The CEO, about the service in Southwest Airlines, puts it, "We don't have a marketing department; we have a customer department."

SWOT ANALYSIS

1. Strengths

India's geographical location, a culmination of deserts, forests, mountains and beaches: India is not only a vast country but also a beautiful country with world famous natural locations, which attracts lots of foreign tourist everyday. India has all types of seasons at the same time because of its tropical nature, as you will find the climate hot, humid, cold and warm all at the same time in different locations. Also its location is not very out of reach but easy to travel, as there are many modes of transport to reach here. Diversity of culture, a blend of various civilizations and their traditions. India's diversity is its greatest strength. There is so much to explore in India. One cannot be tired of exploring its diverse culture, heritage and locations. The different languages, dialects and other religious and cultural customs and traditions are all the sources of attraction in India.

2. Weaknesses

- **Lack of adequate infrastructure:** It is a major drawback. It is not the case of less money but the money is not being utilized in the right places and in the right manner. The airlines in India, for example, are inefficient and do not provide basic facilities at airports. The road condition in India is very bad.
- **An intolerant attitude among certain sections of people:** This is among the people who do not like the foreigners and their entry into the Indian Cultures as they feel that they will change the Indian Culture and attitude and replace it with foreign culture.
- **No proper marketing of India's tourism abroad:** Foreigners still think of India as a land of snake, villages, beggars and elephants. The Indians have not made any efforts to change this image and this has proved very costly as foreigners still think of Indians as illiterates and narrow-minded.
- The hotel industry is heavily staffed.
- **Fewer rooms:** Only 58,000 rooms are present in India which is less than the Bangkok hotel capacity.
- **Services not up to the mark:** The Indian hotel industry offers only value-added services. But the services are not comparable to the existing standards.

3. Opportunities

More proactive role from the government of India in terms of framing policies. The government is supporting Indian tourism industry with the recent appointment of Mrs. Renuka Chaudhary a very intelligent and practical woman who would like to develop Indian tourism. The Indian tourism industry should take this as an opportunity and push forward its plans. Allowing entry of more

multinational companies into the country giving us a global perspective. This is going to develop and build the confidence in the minds of the foreigners who would like to explore India.

- **Growth of domestic tourism:** Indian tourism will only develop if the roots are strong. So, if the Indians themselves travel around India the foreigners will feel confident to come to India. For e.g.: Thomas Cook says "Travel Now Pay Later". Affordable travelling at leisure and plenty of job opportunities available.
- **Manageable demand:** Demand between the national and the inbound tourists can be easily managed due to the difference in holiday periods. India is an ideal tourist destination because of it is the only country with the most diverse topography.

4. Threats

Economic conditions and political turmoil in the other countries affects the tourism. As a result of this people are afraid to venture outside their own homes for fear of terrorist attacks and threats to their lives. Aggressive strategies are adopted by other countries like Australia, Singapore in promoting tourism.

There are hardly any tourists who confidently come to India and if the other countries offer better packages and places then there is no reason why the tourists should visit India. Guest houses are replacing hotels. Political turbulence in the area reduces tourist traffic and thus the business of hotels. The economic conditions have a direct impact on the earnings in the hotel industry. It is seen that the present economic situation has led to a 51.6% fall in the industry.

PEST Analysis

1. **Political:** Political factors are the main driving force of the industry. Government supports and cooperates with the Indian Tourism Industry, railways and roads, hotel industry, airline industry, tourist operators. Downfall of tourism industry because of **in-conducive** political environment, e.g., Kashmir, law is different for different country and is the major determinant for the industry. "Tax paid by tourists in India is the highest in the world. Indian hotels charge about 40% tax compared to other Asian countries where it varies between 3% and 6%."
2. **Economic:** The criteria here is the more the people spend the more the industry grows. As we are concentrating on the International tourists, this has led to the tourism boom. Increase in spend has led to increase in the number of luxury hotels and increase in air industry.
3. **Social:** The general perception for tourism destruction is of the social fabric of a place. The more the tourists coming at the place the more the risk of that place losing its identity.
4. **Technological:** Better technology is a medium for cheaper cost to remote and inaccessible area. It can help the country to get connected to the world. It is very much necessary to have better technology to have that place on world tourist map.

Recent Development in Tourism Industry

India Tourism office at Tokyo won two International Awards in Tour Expo held at Daegu in Korea for excellent tourism promotion. Indian Pavilion won the Best Booth Design Award as well as Best Folklore Performance Award competing with major players in tourism such as China, Japan, Thailand, Malaysia and Canada.

The theme of pavilion was the Buddhist pilgrimage in India. Multipromotional activities undertaken by Tokyo office drew a large crowd to India Pavilion, which added colours to the entire travel show. The Korea's leading newspapers published on the front page the Incredible India booth's photographs highlighting various aspects. The live Yoga performance and Indian traditional snacks at the pavilion were enjoyed very much by the visitors.

Example: Indigo Airlines allowed customers to change bookings as many times as they want by paying a one-time flat fee of ₹ 1000. Similar schemes were introduced by Spicejet, ₹ 899 for Domestic and ₹ 1099 for International flights.

Future of Tourism

Tourism will be by far the largest industry that the world has ever seen. Tourism accounts for 30% of the global trade and comprise 12% of the world GDP. It is estimated that the domestic and international tourism pumps ₹ 37,000 crore into the national economy. The projected growth of the industry in the first decade of this millennium will be 20% over than that of last decade.

There are great opportunities lying ahead after being left behind in decades or more. Tourism is seen as a key industry for the future of Somerset underpinning the local quality of life and the conservation of its natural and cultural assets. To make this process work all those involved within the industry must work together to make the region a truly successful tourist destination. As part of this process a draft tourism delivery plan for Somerset and North Somerset has been drawn up on the back of extensive local consultation. The plan provides a way forward for tourism across Somerset and sets out a five- year action plan from 2006 until 2010.

[**Note:** For Remaining Service Industry few things are explained in Points, Table, Charts or in diagrams we expect students can elaborate this are per marks allotted in university question papers]

Hospitality Sector

Marketing is the process for getting a company's product or service out to consumers. Hospitality marketing takes a look at how segments of the hospitality industry, such as hotels, restaurants, resorts and amusement parks, utilize marketing techniques to promote their products or services. Hospitality marketing is marketing efforts directed towards the increase of revenue in the hospitality industry.

The **hospitality industry** is a broad category of fields within the service industry that includes lodging, event planning, theme parks, transportation, cruise line, and additional fields within the tourism industry. The hospitality industry is a multibillion-dollar industry that depends on the availability of leisure time and disposable income. A hospitality unit such as a restaurant, hotel, or an amusement park consists of multiple groups such as facility maintenance and direct operations (servers, housekeepers, porters, kitchen workers, bartenders, management, marketing, and human resources etc.)

For the purpose of this syllabus we are giving below the detail of the Hotel Industry. However, the Hospitality Industry is much wider and broader in concept. The students are expected to make a more detailed inquiry about the sector as a whole. Let us now see the marketing dimension of one of the most important sector of the Hospitality Industry, i.e., Hotel Industry.

HOTEL MARKETING

Introduction to Hotel Industry

Concept: The name 'Hotel' was derived from a Latin word called "Hospitium's". The earlier hospitality involved accommodation these come to be known as "bins" which booked after by in keeps.

In Britain these were called "Entertainment House". As people began mostly from place-to-place the hotel industry began growing. In New York "City Hotel" was the first hotel to house an elevate thus the trend changed from on ordinary husband establishment to a more organized booking system.

Present Trends: The trend is the industry in classification closely under the basis of advancement in technology, marketing and sales, financial and the development is food and cuisine trends. The hotel industry is now concentrating as a segmentation as the market by contain certain types as customers which focuses as settle that enter exclusively for them, the concept as budget have is an upcoming one in India. The hotelier would like to offer a reasonable amount of good facilities after condition price and attention is a home way from home situation.

Today, the hotel includes is making a reasonable programme in both public and private sectors. Independent chains are "The Taj". The top has gives a new look to the hotel ring in India. Deluxe hotel might home attached very high degree of efficiency is international standard in catering services.

Types of Hotels

Boutique Hotels

"Boutique Hotel" is a term originating in North America to describe intimate, usually luxurious or quirky hotel environments. Boutique hotels differentiate themselves from larger chain or branded hotels by providing an exceptional and personalized level of accommodation, services and facilities.

Boutique hotels are furnished in a theme, stylish and/or in an aspiring manner. Although usually considerably smaller than a mainstream hotel (ranging from 3 to 100 guest rooms) boutique hotels are generally fitted with telephone and wi-fi internet connections, honesty bars and often cable/pay TV. Guest services are attended to by 24-hour hotel staff. Many boutique hotels have on site dining facilities, and the majority offer bars and lounges which may also be open to the general public.

Of the total travel market a small percentage are discerning travellers, who place a high importance on privacy, luxury and service delivery. As this market is typically corporate travellers, the market segment is non-seasonal, high-yielding and repeat, and therefore one which boutique hotel operators target as their primary source of income.

Unusual Hotels

Many hotels can be considered destinations in themselves, by dent of unusual features of the lodging and/or its immediate environment:

Tree House Hotels

Some hotels, such as the Costa Rica Tree House in the Gandoca-Manzanillo Wildlife Refuge, Costa Rica, or Treetops Hotel in Aberdare National Park, Kenya, are built with living trees as structural elements, making them treehouses.

The Arian Towers near Manaus, Brazil is in the middle of the Amazon, on the Rio Negro. Bill Gates even invested and had a suite built there with satellite internet/phone.

Another hotel with tree-house units is Bayram's Tree Houses in Olympos, Turkey .

Cave Hotels

Desert Cave Hotel in Coober Pedy, South Australia and the Cuevas Pedro Antonio de Alarcon (named after the author) in Guadix, Spain, as well as several hotels in Cappadocia, Turkey, are notable for being built into natural cave formations, some with rooms underground.

Capsule Hotels

Capsule Hotels are a type of economical hotels that are quite common in Japan.

Ice Hotels

Main article: Ice hotel

Ice hotels, such as the Ice Hotel in Jukkasjärvi, Sweden, melt every spring and are rebuilt out of ice and snow each winter.

Snow Hotels

The Mammut Snow Hotel in Finland is located within the walls of the Kemi snow castle, which is the biggest in the world. It includes The Mammut Snow Hotel, The Castle Courtyard, The Snow Restaurant and a chapel for weddings, etc. Its furnishings and its decorations, such as sculptures, are made of snow and ice.

There is snow accommodation also in Lainio Snow Hotel in Lapland (near Ylläs), Finland.

Garden Hotels

Garden hotels, famous for their gardens before they became hotels, includes Gravetye Manor, the home of William Robinson and Cliveden, designed by Charles Barry with a rose garden by Geoffrey Jellicoe.

Underwater Hotels

As of 2005, the only hotel with an underwater room that can be reached without Scuba diving is Utter Inn in Lake Mälaren, Sweden. It only has one room, however, and Jules' Undersea Lodge in Key Largo, Florida, which requires scuba diving, is not much bigger.

Hydropolis is an ambitious project to build a luxury hotel in Dubai, UAE, with 220 suites, all on the bottom of the Persian Gulf, 20 metres (66 feet) below the surface. Its architecture will feature two domes that break the surface and an underwater train tunnel, all made of transparent materials such as glass and acrylic.

Other Usual Hotels

- Residential
- Commercial
- Resort

- International
- Floating
- On basis of standards and control (Approved, unapproved by Dept. of Tourism)
- On basis of stars (Facilities, quality, luxury aspects)

MARKETING MIX

Product Mix

While formulating the product mix for the hotel services, it is essential that catering management, restaurant and cafeteria management, management of bedrooms, management of conventional halls are given due weight-age. The boarding services are considered to be an important part of product mix. In addition, the lodging services also become significant. Here it is essential that facilities like light, water, electricity, ventilation, entertainment, sanitation arrangement of bed, etc., are available to the guests. While formulating the product mix, the hotel organizations are required to make possible a fair mix of core and peripheral services. We can't deny the fact that as and when we talk about the services of hotel industry, our focus is on the tourism industry because from there we get profitable business. In addition, the industries and their executives also divert our attention since they help us substantially in getting the business. If we want to project our image as a leader, we have no option but to make the ways for innovation. We need broad-based information related to the local community *vis-a-vis* the foreign and domestic tourists.

In addition, the information regarding the facilities available in the hotel would be related to both such as areas producing revenue and areas not generating profitable financial returns. The information regarding the details of competition are also to be collected regarding the various facilities made available in a hotel including the prices, profile of potential customers, such as age-bracket, sex. Type of group, place of employment, place of residence, mode of transport, room popularity, new guest, first choice, length of stay, any complaints and who made the booking. Besides, we also need information related to hotel activities, such as occupancy statistics, seat turnover percentage, number of empty days, pattern of sales in restaurant and bar or so. It is not to be forgotten that needs of the guests are the cornerstone of marketing analysis. An in-depth study of what the competitors are doing, implementation of unique selling proposition to fulfill the needs of customers, determination of objectives and the formulation of strategies, advertise a promise which is genuine and creditable and in which the customers can easily discern their own benefits can't be devalued in the very context. It is pertinent that we view everything from the customers perspective. The accommodation facilities available and the house-keeping draw our attention to improve the quality of services. While formulating strategic decisions, it is significant that we include in our product mix all the new services offered by our competitors.

Not only the primary and auxiliary or core and peripheral but even the supportive services offered by allied industries divert our attention. The development process can't remain static. This necessitates a continuous effort for incorporating the necessary changes in our service mix. The issue of concern here is how and what to incorporate? A sound product strategy is found a prerequisite for establishing a fair or positive image. Image is the way in which a hotel portrays itself. The factors like atmosphere, brand name, the status, type of people and corporate institutions patronising a hotel

would be instrumental in building up a fair image. And the most important thing in the projection of a fair image is the quality of services and the behaviour of the front-line staff.

Product Level

The fundamental level is the core benefits: the service or benefit the customer is really buying. A hotel guest is buying rest and sleep.

At the second level, the marketer has to turn the core benefit into a basic product. Thus a hotel room includes a bed, bathroom, towels desk, dresser, and closet.

At the third level, the marketer prepares an expected product, a set of attributes and conditions buyers normally expect when they purchase this product. Hotel guests expect a clean bed, fresh towels, working lamps, and a relative degree of quietness. Because most hotels can meet this minimum expectation, the traveller normally will settle for whichever hotel is most convenient or less expensive.

At the fourth level, the marketer prepares an augmented product that exceeds customer expectations. In developed countries, brand positioning and competition take place at this level. In developing countries and emerging markets such as China and India, however, competition takes place mostly at the expected product level.

Differentiation arises on the basis of product augmentation. Product augmentation also leads the marketer to look at the users total consumption system: the way the user performs the tasks of getting and using products and related services.

Something should be noted product augmentation strategy. First, each augmentation adds cost. Second, augmented benefits soon become expected benefits and necessary points-of-parity. Today's hotel guests expect cable or satellite television with a remote control and high-speed internet access or two phones lines. This means competitors will have to search for still other features and benefits. Third, as companies raise the price of their augmented product, some competitors offer a version at a much lower price. Thus, along side the growth of fine hotels like Four Seasons and Ritz Carlton, we see the emergence of lower-cost hotels and motels like Motel 6 and Comfort Inn, which cater to clients who simply want the basic product.

At the fifth level stands the potential product, which encompasses all the possible augmentations and transformation the product or offering might undergo in the future. Here is where companies search for new ways to satisfy customers and distinguish their offer. For instance, in an era when customers are demanding ever faster internet and wireless connections in the room, home theatre installed, etc.

Service Flower

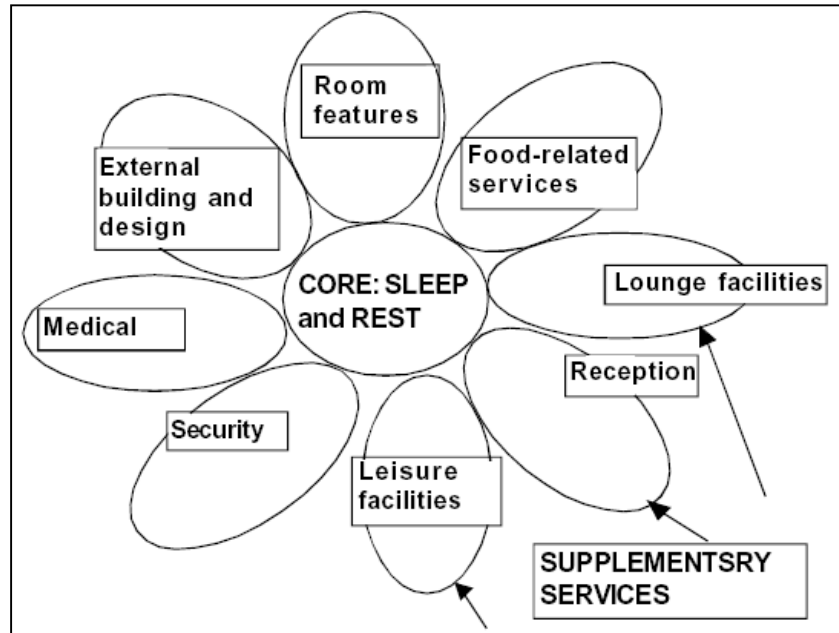


Fig. 5.4

Price

The pricing decisions are beset with many problems. No doubt in it that fixing the hotel tariffs is just like pricing other goods and services. At the same time, it is also right to mention that the hotel professionals need more excellence while fixing the hotel tariffs since the services are found of perishable nature. In addition, the seasonal fluctuation in demand and increasing intensity of competition also complicate the task of professionals. They need world-class excellence while making strategical and tactical pricing decisions. It is in this context that we go through the problem of price mix. Managing relatively volatile demand around a relatively fixed capacity of highly perishable product supply is identified as one of the principal characteristics of the hotel business.

There are four elements in the strategic marketing response which accommodation supplier, make to their external business environment, such as planning the most profitable business mix of segments and products, deciding the position or image which each accommodation unit or chain of units should occupy, encouraging and rewarding frequent users of the services and developing marketing integration between units in common ownership (chains) or units in individual ownership (voluntary co-operatives). Strategic decisions are expected to generate a profitable mix of bookings and room-occupancy through the production and distribution of appropriately priced distinctive products which match the needs and requirements of identified segments.

We accept the fact that pricing menus and drinks in hotel food and beverage areas to obtain maximum sales and profits is a very complex subject. While formulating the pricing strategy, the hotel professionals are required to take into account a number of factors, specially the diverse nature and character of dishes, involvement of costs and spending power of the customers. We also need to

consider the economic criteria, target average spends, target covers per meal period, current menu and drink prices.

Pricing decisions are found important in both strategic and tactical sense. In the tactical sense, it plays an outstanding role. This is due to the inseparability and perishability of the hotel products. This is also due to the inability of the service engineering organizations to carry over unsold stocks as a buffer to cope with future demand as found in the goods manufacturing organizations. Also known as price deregulation, tactical pricing is found instrumental in promoting the hotel business. Experiences show that in the hotel industry, it is found to be a major selling tool. There are a number of ways for practising and benefiting from this tool:

- **Seasonal Discounts:** Found applicable in the hotel industry. Customary to charge lower prices, specially during the off-season.
- **Trade Discounts:** Found applicable in the hotel industry as tour operators and travel agents are offered discounts.
- **Special Discounts:** In the hotel industry, we find special function room rates for overnight convention.

Place

It is only not sufficient that we have a product mix of world-class; it is not only significant that we promise the best, it is much more impact-generating that we bridge over the gap between the services—promised and service offered. The hotels and hotel companies have been found innovating their service mix but they also bear the responsibility of making it sure that the promised services reach to the ultimate users in a right fashion. It is against this background that we focus on the place mix of hotel companies. The hotel personnel and the travel agents are found instrumental in offering the services related to hotels. The front-line-staff, receptionists, inquiries, complaints and grievances redressal cell, the waiters, the porters, the doormen, the travel agents, the tour operators are found involved in the process. Of course, the hotel institutes and travel and tourism institutes have been educating and training the personnel keeping in view the changing needs and increasing expectations of the users, still we find cases where they generate a gap while processing the services which results into dissatisfaction vis-a-vis projection of a negative image. This makes it essential that we assign due weight-age to the processing of services.

A sound distribution system is found significant to the development of almost all the organizations either producing goods or generating services. In the hotel industry, the distribution of services is mainly related to the transmission of information by the related persons to the ultimate users. As and when the bookings are made of a bedroom or a function room or of a restaurant, the confirmation is found essential. The transmission of information related to cancellation is also found important. We can't deny the fact that with the introduction of sophisticated information technologies, the task is made easier but the professionals operating and maintaining the technologies have also been found generating the gap. This makes it essential that hotels, offices of travel agents and the tour operators are well connected with computers, internet services. A number of factors are found influencing the distribution process, such as location, point-of-sale the cost of distribution, effectiveness of marketing resources, image of hotels and hotel companies, tactical strategy and the motivational schemes.

For accomplishing the organizational goals or for bridging over the gap between the services–promised and services-offered, we need to innovate the distribution processes, helping us substantially in purchasing the hotel bedrooms, function rooms in restaurants, essentially through the chain of distribution. The hotels and hotel companies are here required to take a decision regarding a strong and efficient chain which maintains economy in the process and at the same time also minimizes the possibilities of distortion in the process. The choice of location is, of course, the most important business decision, Specially for proprietor-owned restaurants, guest houses and small tourist attractions. This is due to the fact that a well located small business can often be sure of an adequate flow of customers to its catchment area. In this case, the consumers come to the producer directly and therefore, we find the distribution channels less significant. The selection of tour operators and travel agents is an important decision making area for hotels and hotel companies.

If the hotels and hotel companies are well connected with the offices of the travel agents and the tour operators, the occupancy ratio can be increased. The tour operators buy a range of tourist products in bulk. This also includes accommodation facilities which is found relevant to the hotel industry. They also buy function rooms, specially for the organization of conferences, seminars, exhibition, sales contests or so. After buying a number of services and making them a lucrative package, the tour operators sell them to the travel agents. Here, the tour operators play a decisive role in promoting the hotel business. The distribution chain denotes the methods by which a product or services are processed from producers to the ultimate users. The middlemen are the link and if the link is strong, the service generating organizations find it convenient to increase the occupancy ratio. The middlemen are wholesalers buying hotel rooms in bulk and then selling the same to the retailers known as the travel agents.

The tour operators are called the producers of services. The travel agents buy the services at the request of their clients and provide a convenient network of sales outlets which caters to the needs of the catchment area. Here we find three systems for distributing the services, e.g., two-level, one-level and zero-level. The three-tier distribution system is required to be managed properly so that the users' expectations are fulfilled and the promised services reach to the ultimate users in a right way. It is in this context that the hotel management requires world-class professional excellence which would simplify the distribution process besides maintaining economy and making possible cost-effectiveness.

Example: IRCTC started “E-Catering” having tie-ups with QSR chains like KFC, McDonalds, etc. Now a passenger can order through website, toll free number or free SMS and the meal would be served at their berth. Payment can be made COD or through online transfer. The orders can also be cancelled 2 hours before delivery time.

Promotion

For successful marketing, it is not only sufficient that we concentrate on the quality of services but it is also impact generating that we promote our business in such a way that our prospects come to know about the quality to be offered to them as hotel customers. This focuses our attention on innovative promotional measures. It is against this background that we talk about the promotional measures. There are a number of components for promoting the business and it is hoped that a professionally sound employee would blend the different constituents in such a way that effects are proactive but the process of persuasion is cost-effective.

The components like advertisement, publicity, sales promotion, personal selling, word-of-mouth promotion and telemarketing need due attention of hotel professionals. The success rate of a hotel is virtually coiled in the essence of transforming the occasional visitors into the habitual visitors because this helps substantially the process of increasing the occupancy ratio. The sensitivity is vigorously influenced by creativity. This makes it essential that the decision makers in the hotel industry make sincere efforts to formulate sound promotional strategy. We can't deny the fact that creation of awareness has a far-reaching effect on the formulation of promotional strategy.

People

This phrase is meaningful not only for the technologies but even for the people who manage them. It is against this background that the marketing experts the world over have been found making a strong advocacy in favour of an ongoing training programme for the personnel servicing the hotel companies. In this context, our prime focus is on the front-line-personnel working in hotels in different capacities. The receptionists, the porters, the house-keepers, the waiters and waitresses and even the doormen play an incremental role in promoting the business. The sales executives, the marketing managers, the senior executives bear the responsibility of managing the front-line-personnel in such a way that the promised services reach to the ultimate users without making any distortion.

Of course, they are supposed to have proper education and knowledge regarding the services they need to offer but here, it is also important that we organize for them an ongoing training programme, refresher courses, capsule courses, lecture programmes, specially related to the behavioural profile. We find several cases to quote that even the five star hotels where the users stay with high expectations, a minor mistake committed by the receptionists or the house-keepers has resulted in a big loss.

People

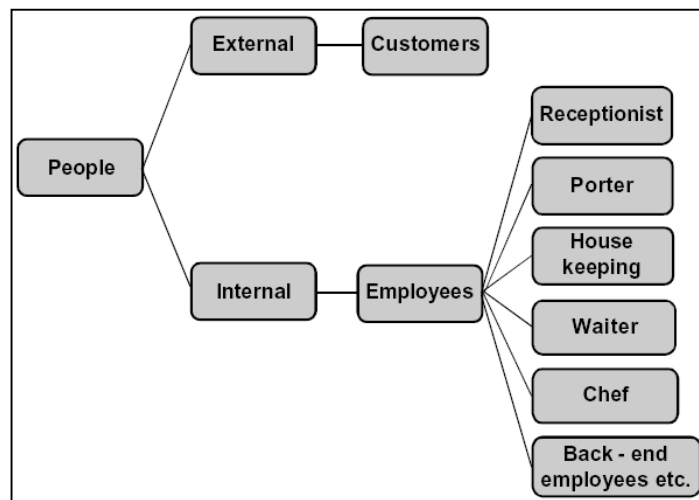


Fig. 5.5

The front-line-staffing particular need to identify the changing levels of expectations of users and in a majority of the cases they virtually fail in doing such. A gap is generated between the quality- promised and the quality-offered. If the hotel personnel prove to be high-performers, personally-committed,

professionally-sound, value-oriented, aware of the behavioural management; familiar with the aesthetic management; they can satisfy the users even if the sophisticated technologies develop a fault.

This makes it essential that the hotel personnel are made available an ongoing training facility efficacious in enriching their professional excellence. The cases of menu fatigue, power interruption, mismanaged bedrooms, function rooms and restaurants, indecent behaviour of doormen, poor information to the receptionists and inquires can be minimized considerably if we assign due weightage to performance- orientation.

Market Segmentation – (External Customers)

- Business Segment
 - Includes corporate professionals, traders and businessmen travelling on business purposes, each category having different preferences
- Pleasure Segment
 - People from different walks of life-leisure and entertainment.
- Demographic Segment
 - Based on income, occupation, age, gender, education.
- Social Class Segment
 - Refers to different income groups
- Benefits Sought Segment
 - Different people seeking particular benefit such as location, accommodation, types of meals, etc.
- Geographic Segment
 - Based on geographic location of hotels
- Frequency Segment
 - Such as light, medium and heavy users.

Physical Evidence

- Location of the hotel
- Hotel building
- Hotel Bedrooms and other amenities
- Hotel function room
- Logo, Website, Brochures, etc.

Process – PPT

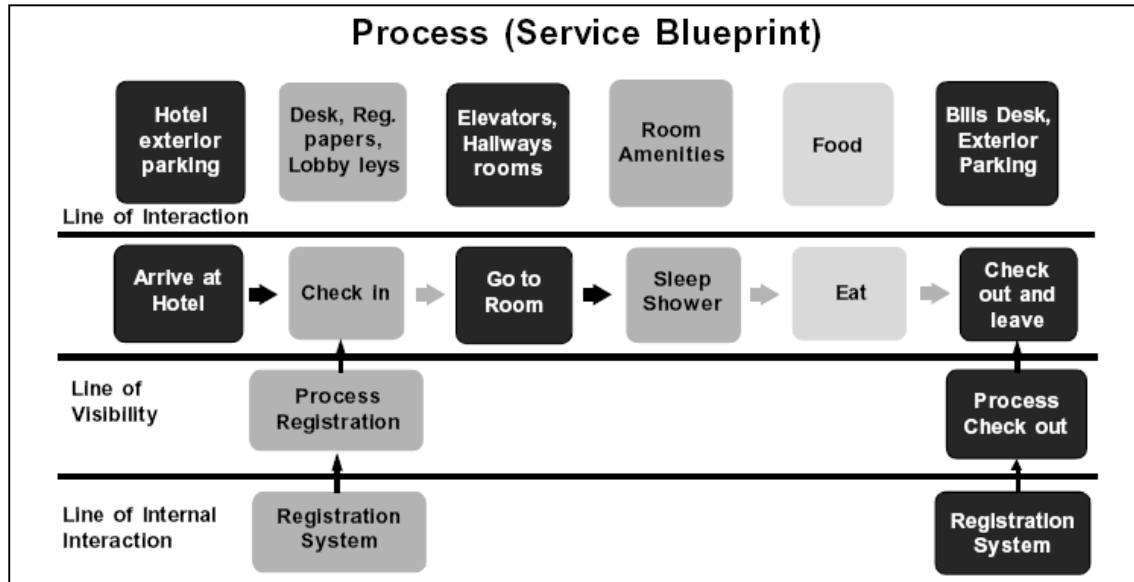


Fig. 5.6

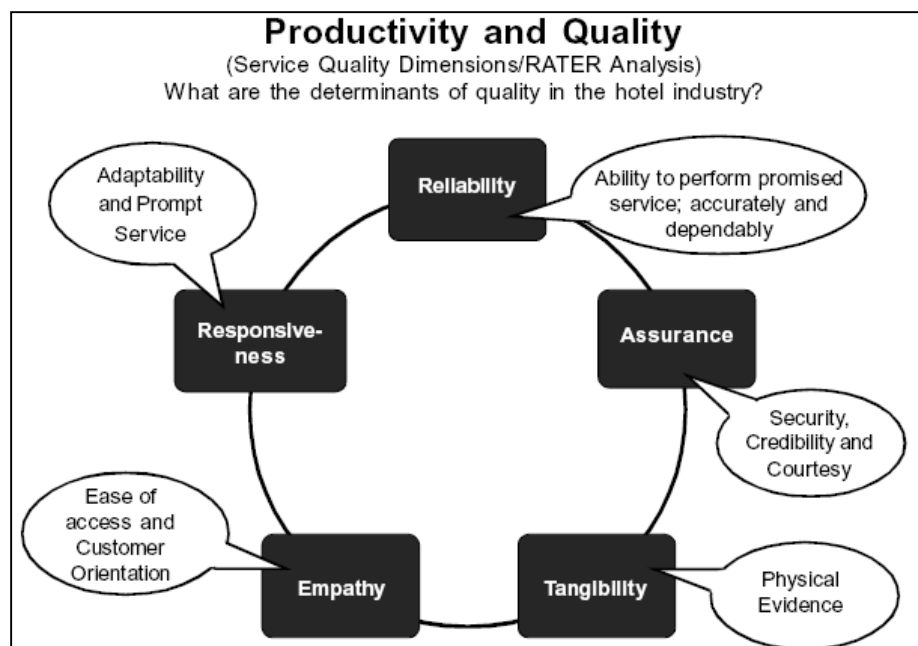


Fig. 5.7

Productivity

- **Tangibles:** the appearance of physical facilities, equipment, personnel and communication materials related to the service.

- **Reliability:** the ability of the service to perform the promised service dependably and accurately.
- **Responsiveness:** the willingness of the service to help customers and provide prompt service.
- **Assurance:** the competence of the service and its security, credibility and courtesy.
- **Empathy:** the ease of access, approach-ability and effort taken to understand customers' requirements.

SWOT Analysis

Strengths

1. **Natural and cultural diversity:** India has a rich cultural heritage. The "unity in diversity" tag attracts most tourists. The coastlines, sunny beaches, backwaters of Kerala, snow capped Himalayas and the quiescent lakes are incredible.
2. **Demand-supply gap:** Indian hotel industry is facing a mismatch between the demand and supply of rooms leading to higher room rates and occupancy levels. With the privilege of hosting Commonwealth Games 2010 there is more demand of rooms in five star hotels. This has led to the rapid expansion of the sector.
3. **Government support:** The government has realized the importance of tourism and has proposed a budget of ₹ 540 crore for the development of the industry. The priority is being given to the development of the infrastructure and of new tourist destinations and circuits. The Department of Tourism (DOT) has already started the "Incredible India" campaign for the promotion of tourism in India.
4. **Increase in the market share:** India's share in international tourism and hospitality market is expected to increase over the long-term. New budget and star hotels are being established. Moreover, foreign hospitality players are heading towards Indian markets.

Weaknesses

1. **Poor support infrastructure:** Though the government is taking necessary steps, many more things need to be done to improve the infrastructure. In 2003, the total expenditure made in this regard was US \$150 billion in China compared to US\$ 21 billion in India.
2. **Slow implementation:** The lack of adequate recognition for the tourism industry has been hampering its growth prospects. Whatever steps are being taken by the government are implemented at a slower pace.
3. **Susceptible to political events:** The internal security scenario and social unrest also hamper the foreign tourist arrival rates.

Opportunities

1. **Rising income:** Owing to the rise in income levels, Indians have more spare money to spend, which is expected to enhance leisure tourism.
2. **Open sky benefits:** With the open sky policy, the travel and tourism industry has seen an increase in business. Increased airline activity has stimulated demand and has helped improve the infrastructure. It has benefited both international and domestic travels.

Threats

1. **Fluctuations in international tourist arrivals:** The total dependency on foreign tourists can be risky, as there are wide fluctuations in international tourism. Domestic tourism needs to be given equal importance and measures should be taken to promote it.
2. **Increasing competition:** Several international majors like the Four Seasons, Shangri-La and Aman Resorts are entering the Indian markets. Two other groups such as the Carlson Group and the Marriott chain are also looking forward to join this race. This will increase the competition for the existing Indian hotel majors.

PEST Analysis

Political

- Tighter drink/drive laws may discourage local custom using restaurant
- Disability Discrimination Act
- Employment law (e.g., minimum wage, hours of work, etc.)

Economical

- Possible recession
- Unfavourable currency rates

Social

- Aging population — more people with more leisure time
- Countryside not as 'exciting' as a city break

Technological

- Teleconferencing/Web cams
- Internet a key, fast growing avenue for advertising.

HEALTHCARE AND HOSPITAL MARKETING

Introduction to Health-care

- Its related to well-being of human beings.
- Health-care industry covers:
 - Hospitals
 - Health insurances
 - Medical software
 - Health equipment
- Medical Science and technology has improved a lot.
- Combination of tangible and intangible aspect with the intangible aspect dominating the tangible aspect.
- Government support.

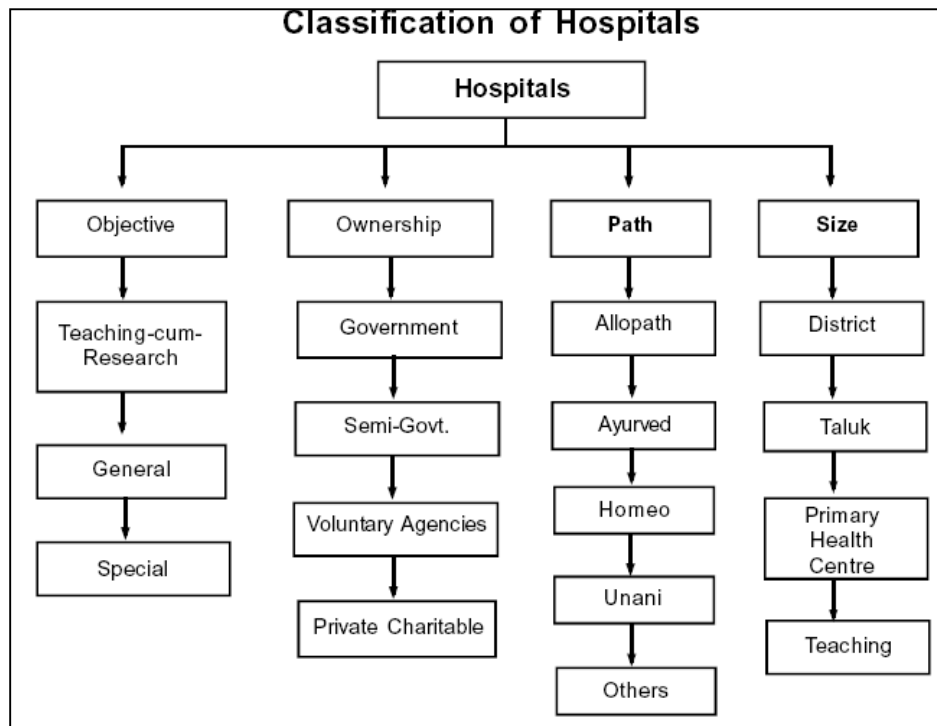


Fig . 5.8

MARKETING MIX OF HEALTHCARE AND HOSPITAL INDUSTRY

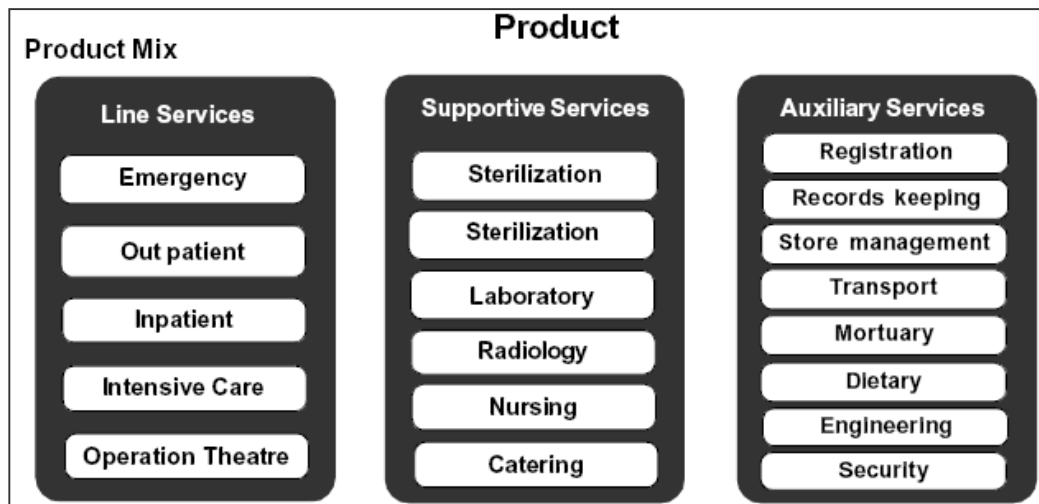


Fig. 5.9

Product

Service Flower

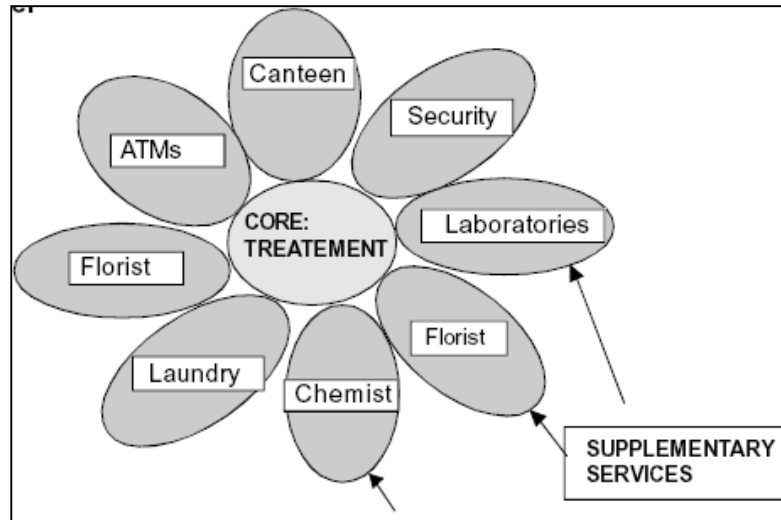


Fig. 5.10

Product level

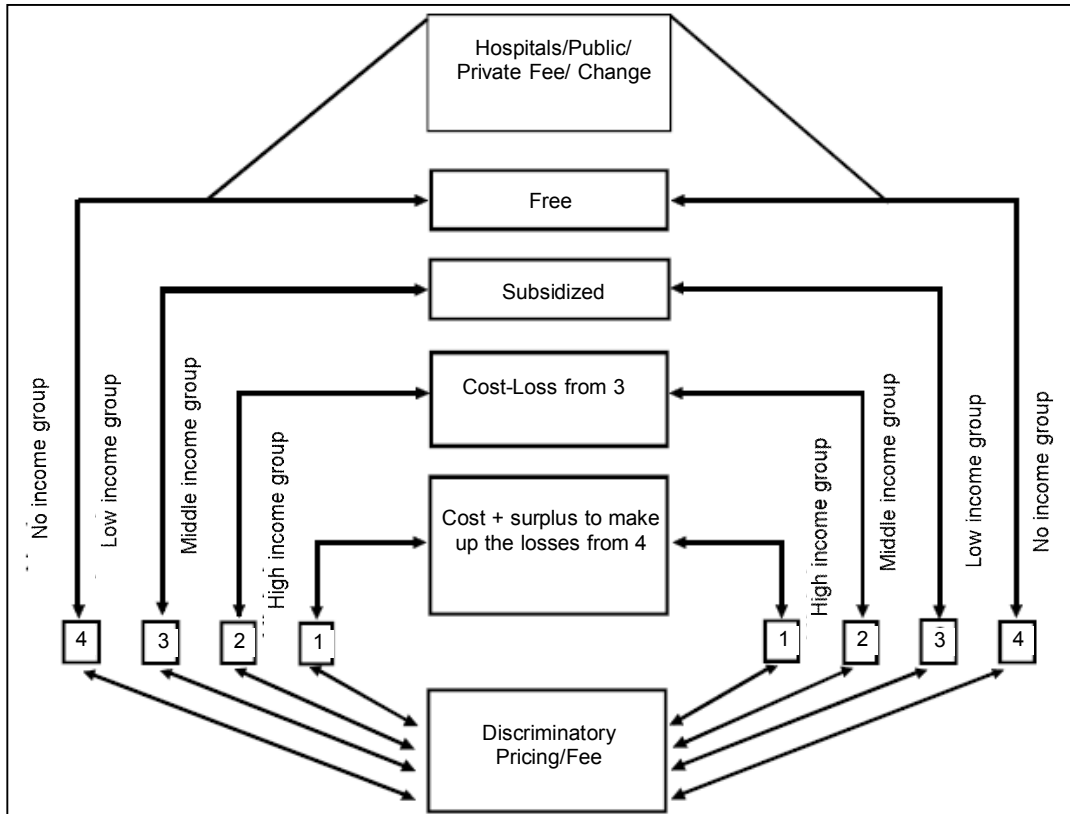
Benefit	Meaning	Examples in respect of Hospitals
1. Core benefit	The fundamental benefit or service	Treatment of human ills
2. Expected Product	Basic, functional attributes and set of attributes conditions the buyer normally expects	Infrastructure to support reasonable number of beds, Operation theatres, Edquipment – like Cardio-respiratory supportive equipment
3. Augmented Product	That meets he customers desires beyond expectations	Ambience, Central Air-conditioning, Automation equipments (X-Ray, Scanners, Printers, Photo Scanners)
4. Potential Product	The possible evolution to distinguish the offer	Tele-Medicines and Preventive Care

Price Mix

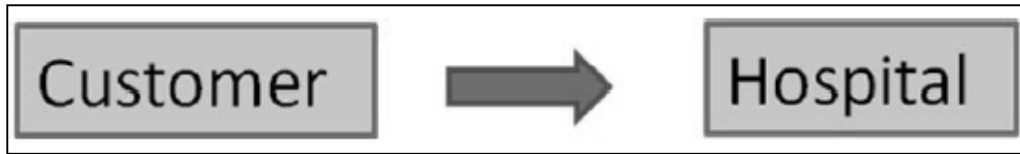
- One of the most prominent elements in the marketing mix.
- Depends on treatment prescribed by the respective doctors and the facilities offered to the patient.
- As a service is intangible, it's very hard to determine value of the service rendered.
- Factors affecting the price mix
 - Positioning of the hospital
 - product mix
 - ownership type.

Price

- No income group: Free
- Low income group: Subsidized
- Middle income group: Cost + losses from low income group
- High income group: Cost + losses from no income group

**Fig. 5.11****Place — Channels of Distribution:**

- Implies location of the hospital, which is fixed.
- Surroundings also play an essential role.
- The kind of services a hospital is rendering is also important for determining the location.
- In India which is geographically vast and majority lives in rural areas, place of hospitals plays a crucial role.
- Here, the customer has to go the service provider to avail himself of the services.



Promotion

- Includes:
 - Advertising in Health and Fitness magazines
 - Publicity
 - Word-of-mouth
 - Tie-ups with corporate companies
- Generally do not undertake aggressive promotion.
- Main motive is to inculcate awareness.
- Rely heavily on a favourable word-of-mouth.
- To increase the clientele, a hospital may continuously introduce different health services.
- Hospitals conduct camps in rural areas to give medical check-ups at a reasonable price.
- Free medical treatment for celebrities.

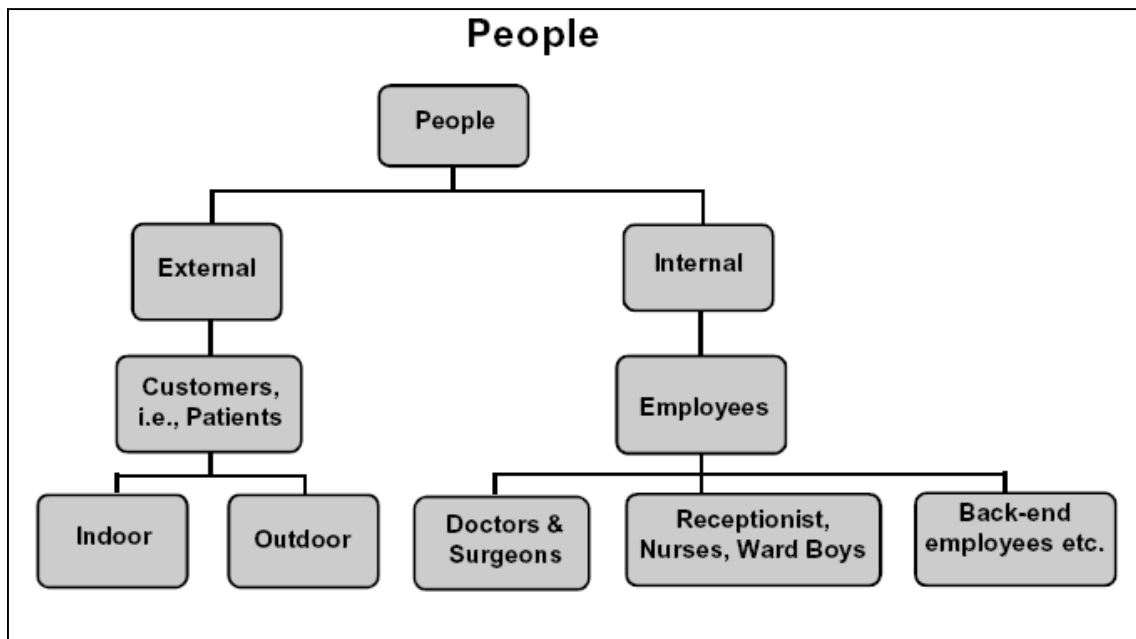
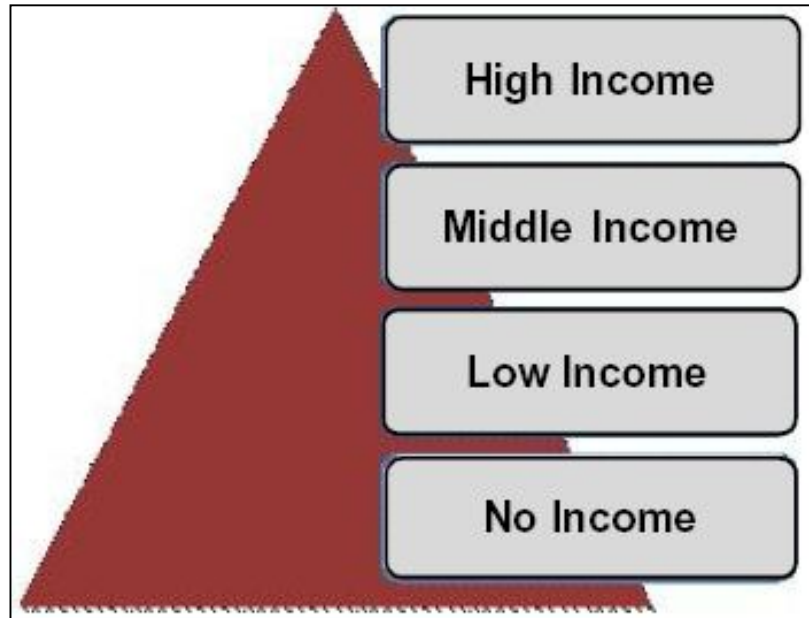



Fig. 5.12

Market Segmentation (External Customers)**Physical Evidence**

- Smart building
- Logos and Mascots
- Ambience – Lighting, Painting, layout of facilities, etc.
- Exotic food menu
- Cleanliness of the hospital
- Uniforms of the employees
- Rooms
- Equipments used
- Example
 - Lilavati Hospital has got an elegant building
 - Fortis and Apollo Hospitals have a unique logo, which can be easily identified








Fig. 5.13**Process (Service Blueprint)**

- Is dependent on the size of the hospital and kind of service it is offering.
- Should be customer-friendly
- Can be divided into 3 stages:

- The joining phase
- The intensive consumption phase
- The detached phase and feedback

Process (Service Blueprint)

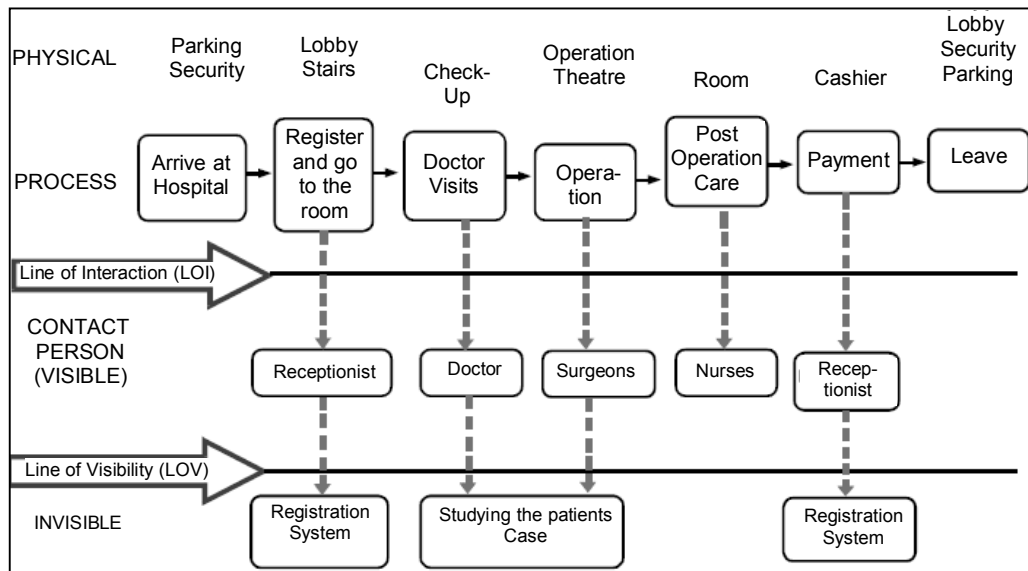


Fig. 5.14

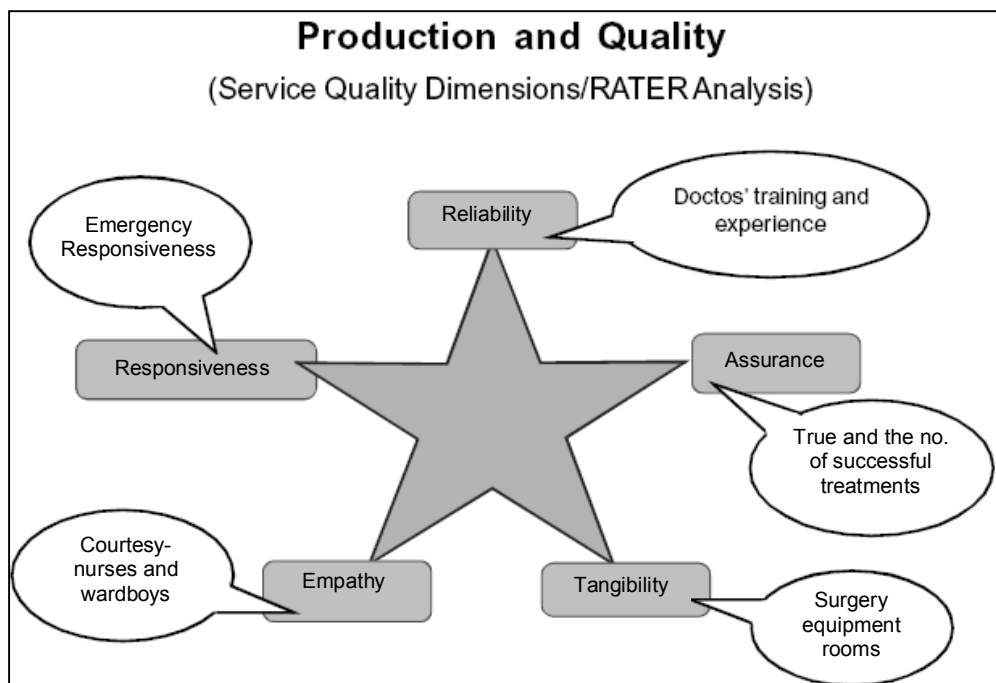


Fig. 5.15

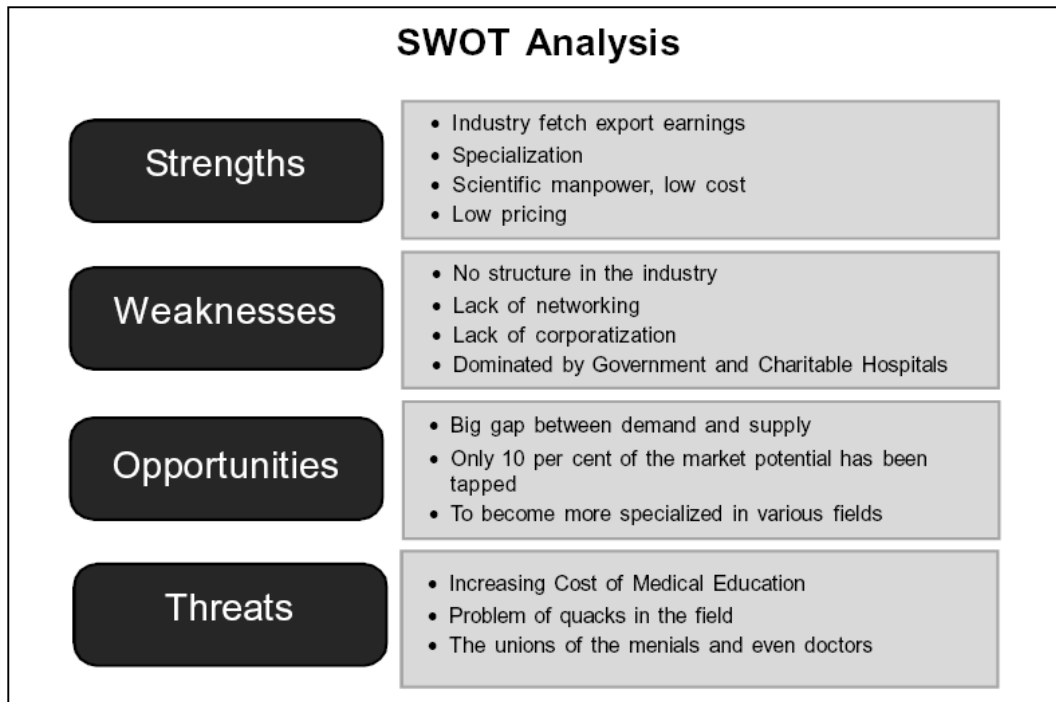


Fig. 5.16

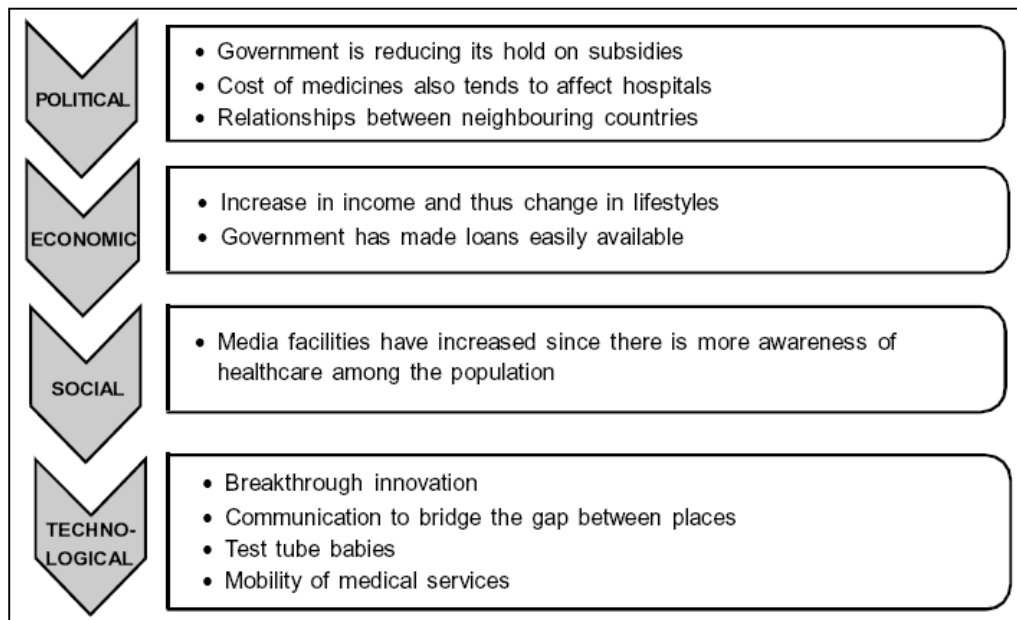
Pest Analysis

Fig. 5.17

Recent Developments

- **Hub and Spoke Centres:**
 - Spokes will improve accessibility to standard health-care to the small towns, who currently have inadequate health services.
 - These will serve as reference centres for ‘hubs’ located in highly populated metros.
 - ‘Hubs’ — patients receive immediate sophisticated health-care for critical illnesses and do not unnecessarily pay for bed usage where same day discharge is an option.
- **Diagnostic Centres:**
 - The need for diagnostic centres will arise when hospitals face cost containment pressures and seek to outsource certain services.
- **Retail Pharmacies:**
 - Large pharmacy retail outlets and chains will be prevalent in India in the near future.

Social Marketing Principles

- Used by organization’s marketing services instead of tangible goods.
- Also known as social cause or idea marketing.
- Non-profit and non-business organizations – goal is not profit maximization
- Based on selling concept and is a comprehensive presentation of all sides on an issue
- Uses following principles:
 - Market segmentation,
 - Consumer research,
 - Communication, etc.
- *Example:* public health bodies – campaigning to stop smoking; family planning.

BANKING INDUSTRY

As per the Reserve Bank of India (RBI), India’s banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

Indian banking industry is expected to witness the roll out of innovative banking models like payments and small finance banks. 11 payment banks are expected to be launched in 2016 and 2017. Separately about 10 small finance banks are also expected to be launched. RBI’s new measures may go a long way in helping the restructuring of the domestic banking industry.

Market Size

The Indian banking system consists of 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions. Public-sector banks control nearly 80 percent of the market, thereby leaving comparatively much smaller shares for its private peers. The Indian banking sector’s

assets reached US\$ 1.8 trillion in FY14 from US\$ 1.3 trillion in FY10, with 70 per cent of it being accounted by the public sector.

Total lending and deposits increased at a compound annual growth rate (CAGR) of 20.7 per cent and 19.7 per cent, respectively, during FY07-14 and are further poised for growth, backed by demand for housing and personal finance. Total asset size of banking sector assets is expected to increase to US\$ 28.5 trillion by FY25. Deposits have grown at a CAGR of 13.6 per cent during FY05-15 to an estimated US\$ 1.48 trillion in FY15. Deposit growth has been mainly driven by strong growth in savings amid rising disposable income levels.

Standard & Poor's estimates that credit growth in India's banking sector would improve to 12-13 per cent in FY16 from less than 10 per cent in the second half of CY14.

Example: SBI launched valet services for feature phone users called "Batwa". This application is available on Java enabled mobile phones. Batwa would enable the users to load, pay and receive money. SBI is also planning to launch another version of Batwa for very basic phones which does not offer internet access and does not entail downloading any app.

SBI has an annual IT Budget of ₹ 3000 Cr. It holds 20% of the market share having customer Base of 28.6 Cr of which 2.3 Cr are Net Banking Customers and 1.2 Cr are mobile Banking customers. In August 2015, it launched "Buddy" for smart phone's users. Buddy can send money to new and registered customers, book movies, flights, hotels as well as can be used for shopping.

Investments/developments in Banking Services

Key investments and developments in India's banking industry include:

- Free-Charge, the wallet company owned by online retailer Snapdeal, has partnered with Yes Bank and MasterCard to launch Free-Charge Go, a virtual card that allows users to pay for goods and services at online shops and offline retailers.
- Exim Bank of India and the Government of Andhra Pradesh has signed a Memorandum of Understanding (MoU) to promote exports in the state.
- Kotak Mahindra Bank Limited has bought 19.9 per cent stake in Airtel M Commerce Services Limited (AMSL) for ₹ 98.38 crore (US\$ 14.43 million) to set up a payments bank. AMSL provides semi-closed prepaid instrument and offers services under the 'Airtel Money' brand name.
- Ujjivan Financial Services Ltd, a micro-finance services company, has raised ₹ 312.4 crore (US\$ 45.84 million) in a private placement from 33 domestic investors including mutual funds, insurance firms, family offices and High Net Worth Individuals (HNIs)).
- India's largest public sector bank, State Bank of India (SBI), has opened its first branch dedicated to serving start-up companies, in Bengaluru.
- Global rating agency Moody's has upgraded its outlook for the Indian banking system to stable from negative based on its assessment of five drivers including improvement in operating environment and stable asset risk and capital scenario.
- Lok Capital, a private equity investor backed by US-based non-profit organization Rockefeller Foundation, plans to invest up to US\$ 15 million in two proposed small finance banks in India over the next one year.

- The Reserve Bank of India (RBI) has granted in-principle licences to 10 applicants to open small finance banks, which will help expanding access to financial services in rural and semi-urban areas.
- IDFC Bank has become the latest new bank to start operations with 23 branches, including 15 branches in rural areas of Madhya Pradesh.
- The RBI has given in-principle approval to 11 applicants to establish payment banks. These banks can accept deposits and remittances, but are not allowed to extend any loans.
- The Bank of Tokyo-Mitsubishi (BTMU), a Japanese financial services group, aims to double its branch count in India to 10 over the next three years and also target a 10 per cent credit growth during FY16.
- The RBI has allowed third-party white label automated teller machines (ATM) to accept international cards, including international prepaid cards, and said white label ATMs can now tie up with any commercial bank for cash supply.
- The RBI has allowed Indian alternative investment funds (AIFs), to invest abroad, in order to increase the investment opportunities for these funds.
- RBL Bank informed that it would be the anchor investor in Trifecta Capital's Venture Debt Fund, the first alternative investment fund (AIF) in India with a commitment of ₹ 50 crore (US\$ 7.34 million). This move provides RBL Bank the opportunity to support the emerging venture debt market in India.
- Bandhan Financial Services raised ₹ 1,600 crore (US\$ 234.8 million) from two international institutional investors to help convert its micro-finance business into a full service bank. Bandhan, one of the two entities to get a banking licence along with IDFC, launched its banking operations in August 2015.

Government Initiatives

The government and the regulator have undertaken several measures to strengthen the Indian banking sector.

- The Reserve Bank of India (RBI) has allowed additional reserves to be part of tier-1 or core capital of banks, such as revaluation reserves linked to property holdings, foreign currency translation reserves and deferred tax assets, which is expected to shore up the capital of state-run banks and privately owned banks by up to ₹ 35,000 crore (US\$ 5.14 billion) and ₹ 5,000 crore (US\$ 734 million) respectively.
- Scheduled commercial banks can grant non-fund based facilities including partial credit enhancement (PEC), to those customers, who do not avail any fund based facility from any bank in India.
- Ministry of Finance has planned to inject ₹ 5,000 crore (US\$ 734 million) in eight public sector banks in order to boost their capital,
- To reduce the burden of loan repayment on farmers, a provision of ₹ 15,000 crore (US\$ 2.2 billion) has been made in the Union Budget 2016-17 towards interest subvention.
- Under Pradhan Mantri Jan DhanYojna (PMJDY), 210 million accounts! have been opened and 174.6 million RuPay debit cards have been issued. These new accounts have mustered deposits worth ₹ 33,704 crore (US\$ 4.95 billion).

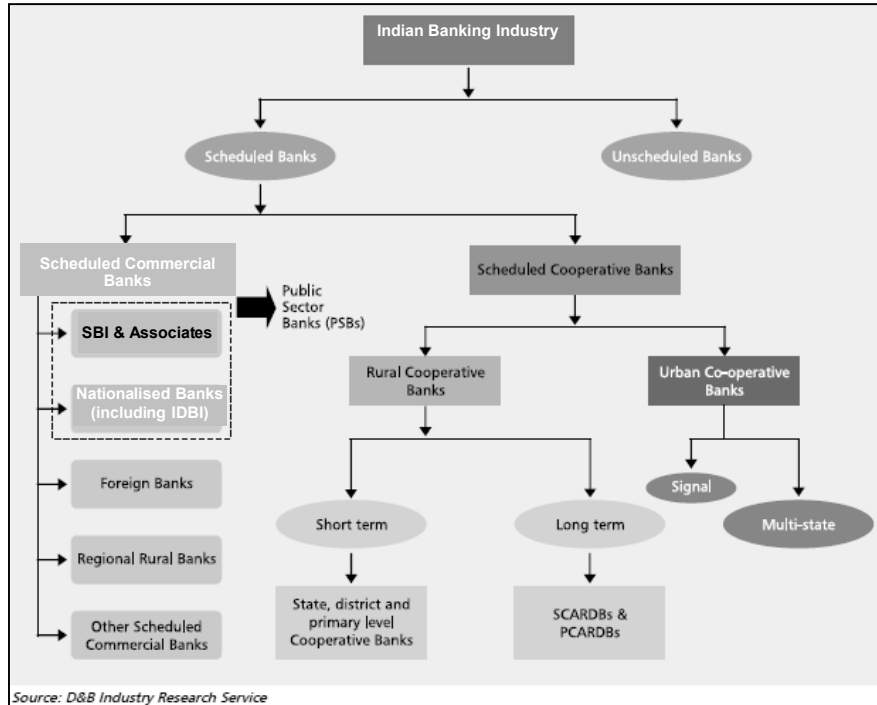
- The Government of India is looking to set up a special fund, as a part of National Investment and Infrastructure Fund (NIIF), to deal with stressed assets of banks. The special fund will potentially take over assets which are viable but don't have additional fresh equity from promoters coming in to complete the project.
- The Reserve Bank of India (RBI) plans to soon come out with guidelines, such as common risk-based know-your-customer (KYC) norms, to reinforce protection for consumers, especially since a large number of Indians have now been financially included post the government's massive drive to open a bank account for each household.
- To provide relief to the state electricity distribution companies, Government of India has proposed to their lenders that 75 per cent of their loans be converted to state government bonds in two phases by March 2017. This will help several banks, especially public sector banks, to offload credit to state electricity distribution companies from their loan book, thereby improving their asset quality.
- Government of India aims to extend insurance, pension and credit facilities to those excluded from these benefits under the Pradhan Mantri Jan Dhan Yojana (PMJDY).
- To facilitate an easy access to finance by Micro and Small Enterprises (MSEs), the Government/RBI has launched Credit Guarantee Fund Scheme to provide guarantee cover for collateral free credit facilities extended to MSEs upto ₹ 1 Crore (US\$ 0.15 million). Moreover, Micro Units Development & Refinance Agency (MUDRA) Ltd. was also established to refinance all Micro-finance Institutions (MFIs), which are in the business of lending to micro / small business entities engaged in manufacturing, trading and services activities upto ₹ 10 lakh (US\$ 0.015 million).

Road Ahead

The Indian economy is on the brink of a major transformation, with several policy initiatives set to be implemented shortly. Positive business sentiments, improved consumer confidence and more controlled inflation are likely to prop-up the country's economic growth. Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth. All these factors suggest that India's banking sector is also poised for robust growth as the rapidly growing business would turn to banks for their credit needs.

Also, the advancements in technology have brought the mobile and internet banking services to the fore. The banking sector is laying greater emphasis on providing improved services to their clients and also upgrading their technology infrastructure, in order to enhance the customer's overall experience as well as give banks a competitive edge.

Many banks, including HDFC, ICICI and AXIS are exploring the option to launch contact-less credit and debit cards in the market shortly. The cards, which use near field communication (NFC) mechanism, will allow customers to transact without having to insert or swipe.

Exhibit : Structure of the Organised Banking Industry**Business Segmentation**

The entire range of banking operations are segmented into four broad heads- retail banking businesses, wholesale banking businesses, treasury operations and other banking activities. Banks have dedicated business units and branches for retail banking, wholesale banking (divided again into large corporate, mid corporate) etc.

Exhibit: Business Segmentation

Retail banking

It includes exposures to individuals or small businesses. Retail banking activities are identified based on four criteria of orientation, granularity, product criterion and low value of individual exposures. In essence, these qualifiers imply that retail exposures should be to individuals or small businesses (whose annual turnover is limited to ₹ 0.50 billion) and could take any form of credit like cash credit, overdrafts etc. Retail banking exposures to one entity is limited to the extent of 0.2% of the total retail portfolio of the bank or the absolute limit of ₹ 50 million. Retail banking products on the liability side includes all types of deposit accounts and mortgages and loans (personal, housing, educational etc) on the assets side of banks. It also includes other ancillary products and services like credit cards, demat accounts etc.

The retail portfolio of banks accounted for around 21.3% of the total loans and advances of SCBs as at end-March 2009. The major component of the retail portfolio of banks is housing loans, followed by auto loans. Retail banking segment is a well diversified business segment. Most banks have a significant portion of their business contributed by retail banking activities. The largest players in retail banking in India are ICICI Bank, SBI, PNB, BOI, HDFC and Canara Bank.

Among the large banks, ICICI bank is a major player in the retail banking space which has had definitive strategies in place to boost its retail portfolio. It has a strong focus on movement towards cheaper channels of distribution, which is vital for the transaction intensive retail business. SBI's retail business is also fast growing and a strategic business unit for the bank. Among the smaller banks, many have a visible presence especially in the auto loans business. Among these banks the reliance on their respective retail portfolio is high, as many of these banks have advance portfolios that are concentrated in certain usages, such as auto or consumer durable. Foreign banks have had a somewhat restricted retail portfolio till recently. However, they are fast expanding in this business segment. The retail banking industry is likely to see a high competition scenario in the near future.

Wholesale banking

Wholesale banking includes high ticket exposures primarily to corporates. Internal processes of most banks classify wholesale banking into mid corporates and large corporates according to the size of exposure to the clients. A large portion of wholesale banking clients also account for off balance sheet businesses. Hedging solutions form a significant portion of exposures coming from corporates. Hence, wholesale banking clients are strategic for the banks with the view to gain other business from them. Various forms of financing, like project finance, leasing finance, finance for working capital, term finance etc form part of wholesale banking transactions. Syndication services and merchant banking services are also provided to wholesale clients in addition to the variety of products and services offered.

Wholesale banking is also a well diversified banking vertical. Most banks have a presence in wholesale banking. But this vertical is largely dominated by large Indian banks. While a large portion of the business of foreign banks comes from wholesale banking, their market share is still smaller than that of the larger Indian banks. A number of large private players among Indian banks are also very active in this segment. Among the players with the largest footprint in the wholesale banking space are SBI, ICICI Bank, IDBI Bank, Canara Bank, Bank of India, Punjab National Bank and Central Bank of India. Bank of Baroda has also been exhibiting quite robust results from its wholesale banking operations.

Treasury Operations

Treasury operations include investments in debt market (sovereign and corporate), equity market, mutual funds, derivatives, and trading and forex operations. These functions can be proprietary activities, or can be undertaken on customer's account. Treasury operations are important for managing the funding of the bank. Apart from core banking activities, which comprises primarily of lending, deposit taking functions and services; treasury income is a significant component of the earnings of banks. Treasury deals with the entire investment portfolio of banks (categories of HTM, AFS and HFT) and provides a range of products and services that deal primarily with foreign exchange, derivatives and securities. Treasury involves the front office (dealing room), mid office (risk management including independent reporting to the asset liability committee) and back office (settlement of deals executed, statutory funds management etc).

Other Banking Businesses

This is considered as a residual category which includes all those businesses of banks that do not fall under any of the aforesaid categories. This category includes para banking activities like hire purchase activities, leasing business, merchant banking, factoring activities etc.

Products of the Banking Industry

The products of the banking industry broadly include deposit products, credit products and customized banking services. Most banks offer the same kind of products with minor variations. The basic differentiation is attained through quality of service and the delivery channels that are adopted. Apart from the generic products like deposits (demand deposits – current, savings and term deposits), loans and advances (short term and long term loans) and services, there have been innovations in terms and products such as the flexible term deposit, convertible savings deposit (wherein idle cash in savings account can be transferred to a fixed deposit), etc. Innovations have been increasingly directed towards the delivery channels used, with the focus shifting towards ATM transactions, phone and internet banking. Product differentiating services have been attached to most products, such as debit/ATM cards, credit cards, nomination and demat services.

Exhibit: Products and Services

Deposits	Credit	Other customised services and products
<ul style="list-style-type: none"> • Term deposits • Demand deposits • Current deposits • Savings deposits 	<ul style="list-style-type: none"> • Bill purchased and discounted • Cash credit, overdrafts and loans • Term deposits 	<ul style="list-style-type: none"> • Guarantee and advisory services • Derivative and other treasury products • Insurance and investments • Para banking products • Other services

Source: D&B Industry Research Service

Other banking products include fee-based services that provide non-interest income to the banks. Corporate fee-based services offered by banks include treasury products; cash management services; letter of credit and bank guarantee; bill discounting; factoring and forfeiting services; foreign exchange services; merchant banking; leasing; credit rating; underwriting and custodial services. Retail fee-based services include remittances and payment facilities, wealth management, trading facilities and other value added services.

ASPECT OF SERVICE MARKETING FOR BANKING SECTOR

Marketing scope develops day to day. These developments carry special significance for service sector in which customer and service producer interact closely.

INTERNAL MARKETING: Especially in service sector like external relations, internal relations also have significance. It requires finding and keeping successful personnel. For personnel of the organization to be considered their own goals and service situation, values of the organization are sold to them. The communication techniques carried out for customers are also performed for the personnel in internal marketing and this two techniques go together. For example, the ads that aim creating firm's image should be prepared with regarding to audience which is composed of firm's personnel.

NETWORK MARKETING: This approach takes the organization as a sequence which involves producer and customer that market services to each other in the organization. In this structure, the activities of departments that compose organization would be more focused on market. This will also affect the structure of organization.

RELATIONSHIP MARKETING: It was mentioned that close relationship was established between producer and customer in service sector. In addition to this, life cycle of a customer relationship was also mentioned under the product outline.

Maintaining the relationship for extant customer increases the profit of firms. It should be emphasized that this fact has an importance for service sector. Life cycle of a customer relationship is composed of three stages. At the first stage, firms try to be well known and to acquire new customers. At the *second stage*, the connection between customer and firm has been achieved. During the stage, firms intensified their activities on acquired customers and both of them promises mutually. At the *third stage*, these promises are accomplished and the service is consumed. During the stage, firms face "Reality Instants" which could possibly achieve satisfaction of customer and continuous relationship. This could be also true for second stage. So, these instants should be managed successfully. Implementation of close relations with customer successively and true applications at reality instants could not be accomplished by responsibilities of a marketing personnel. Besides, it should be remembered that consumption and production of service are closely interrelated. At this context, marketing should have role not only in production-consumption between instants, but also at points that these intersect.

Implications of Service Characteristics

The special characteristics of services like intangibility, indivisibility, heterogeneity and ownership have led to a wider dimension of marketing than the normal 4 Ps of marketing services. Now the marketing should be looked into 7 Ps viz. Product, Price, Place, Promotion, People,

Physical evidence and process of service delivery system. The service Characteristics, Implications and Marketing Strategy can be co-related as mentioned in the under-noted table:

	Service Characteristics	Implications	Marketing Strategy
1.	Intangibility	Difficult to judge quality and value in advance sampling is difficult. Relatively difficult to promote.	Use brand names. Focus on benefits. Use personalized service. Develop reputation.
2.	Inseparability	Involves presence of performer/producer-sale is direct-Limited scale of operations.	Learn to work in larger groups. Work faster. Train more service performers.
3.	Heterogeneity	Standardization of quality is difficult	Careful selection and training of personnel-Define behavior norms-Mechanize and automate-Maximum possible operation.
4.	Perishability	Cannot be stored. Demand fluctuation poses a problem.	Advisable to match between supply and demand by a price reduction season-wise.
5.	Ownership	Customer has access to service but no ownership of facility or activity.	Impress advantages of non- ownership such as easier payment service.

Insurance Sector

The insurance industry of India consists of 53 insurance companies of which 24 are in life insurance business and 29 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India (GIC). Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.

Out of 29 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. There are two more specialized insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for crop insurance.

Market Size

During April 2015 to February 2016 period, the life insurance industry recorded a new premium income of ₹ 1.072 trillion (US\$ 15.75 billion), indicating a growth rate of 18.3 per cent. The general insurance industry recorded a 14.1 per cent growth in Gross Direct Premium underwritten in FY2016 up to the month of February 2016 at ₹ 864.2 billion (US\$ 12.7 billion).

India's life insurance sector is the biggest in the world with about 360 million policies which are expected to increase at a Compound Annual Growth Rate (CAGR) of 12-15 per cent over the next five years. The insurance industry plans to hike penetration levels to five per cent by 2020.

The country's insurance market is expected to quadruple in size over the next 10 years from its current size of US\$ 60 billion. During this period, the life insurance market is slated to cross US\$ 160 billion.

The general insurance business in India is currently at ₹ 78,000 crore (US\$ 11.44 billion) premium per annum industry and is growing at a healthy rate of 17 per cent.

The Indian insurance market is a huge business opportunity waiting to be harnessed. India currently accounts for less than 1.5 per cent of the world's total insurance premiums and about 2 per cent of the world's life insurance premiums despite being the second most populous nation. The country is the fifteenth largest insurance market in the world in terms of premium volume, and has the potential to grow exponentially in the coming years.

Investments

The following are some of the major investments and developments in the Indian insurance sector.

- The Insurance sector in India is expected to attract over ₹ 12,000 crore (US\$ 1.76 billion) in 2016! as many foreign companies are expected to raise their stake in private sector insurance joint ventures.
- QuEST Global, a pure-play engineering and Research and Development (R&D) services provider, has raised investment of around ₹ 2,396 crore (US\$ 351.54 million) from leading global investors Bain Capital, GIC and Advent International for a minority stake in the company.
- Foreign Direct Investment in the insurance sector stood at US\$ 341 million in March-September, 2015, showing a growth of 152 per cent compared to the same period last year.
- Insurance firm AIA Group Ltd has decided to increase its stake in Tata AIA Life Insurance Co Ltd, a joint venture owned by Tata Sons Ltd and AIA Group from 26 per cent to 49 per cent.
- Canada-based Sun Life Financial Inc plans to increase its stake from 26 per cent to 49 per cent in Birla Sun Life Insurance Co Ltd, a joint venture with Aditya Birla Nuvo Ltd, through buying of shares worth ₹ 1,664 crore (US\$ 244.14 million).
- Nippon Life Insurance, Japan's second largest life insurance company, has signed definitive agreements to invest ₹ 2,265 crore (US\$ 332.32 million) in order to increase its stake in Reliance Life Insurance from 26 per cent to 49 per cent.
- The Central Government is planning to launch an all-in-one insurance scheme for farmers called the Unified Package Insurance Scheme (Bhartiya Krishi Bima Yojana). The proposed scheme will have various features like crop insurance, health cover, personal accident insurance, live stock insurance, insurance cover for agriculture implements like tractors and pump sets, student safety insurance and life insurance.
- Government launched a special enrolment drive, Suraksha Bandhan Drive comprising of sale of gift cheques and launch of deposit schemes in bank branches, to facilitate enrolment under

Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY).

- To increase the subscriber base and ensure wider reach, the Central Government has eased several norms for its flagship insurance scheme Atal Pension Yojana (APY), in terms of more options for periodical contributions, voluntary and premature exits and simplified penalty for payment delays.
- Bennett Coleman and Co. Ltd (BCCL), the media conglomerate with multiple publications in several languages across India, is set to buy Religare Enterprises Ltd's entire 44 per cent stake in life insurance joint venture Aegon Religare Life Insurance Co. Ltd. The foreign partner Aegon is set to increase its stake in the joint venture from 26 per cent to 49 per cent, following government's reform measure allowing the increase in stake holding by foreign companies in the insurance sector.
- GIC Re and 11 other non-life insurers have jointly formed the India Nuclear Insurance Pool with a capacity of ₹1,500 crore (US\$ 220.08 million) and will provide the risk transfer mechanism to the operators and suppliers under the CLND Act.
- State Bank of India has announced that BNP Paribas Cardif is keen to increase its stake in SBI Life Insurance from 26 per cent to 36 per cent. Once the foreign joint venture partner increases its stake to 36 per cent, SBI's stake in SBI Life will get diluted to 64 per cent.

Government Initiatives

The Government of India has taken a number of initiatives to boost the insurance industry. Some of them are as follows:

- The Union Budget of 2016-17 has made the following provisions for the Insurance Sector:
- Foreign investment will be allowed through automatic route for up to 49 per cent subject to the guidelines on Indian management and control, to be verified by the regulators.
- Service tax on single premium annuity policies has been reduced from 3.5 per cent to 1.4 per cent of the premium paid in certain cases.
- Government insurance companies to be listed on the exchanges
- Service tax on service of life insurance business provided by way of annuity under the National Pension System regulated by Pension Fund Regulatory and Development Authority (PFRDA) being exempted, with effect from 1 April 2016.
- The Insurance Regulatory and Development Authority (IRDA) of India has formed two committees to explore and suggest ways to promote e-commerce in the sector in order to increase insurance penetration and bring financial inclusion.
- IRDA has formulated a draft regulation, IRDAI (Obligations of Insurers to Rural and Social Sectors) Regulations, 2015, in pursuance of the amendments brought about under section 32 B of the Insurance Laws (Amendment) Act, 2015. These regulations impose obligations on insurers towards providing insurance cover to the rural and economically weaker sections of the population.
- The Government of India has launched two insurance schemes as announced in Union Budget 2015-16. The first is Pradhan Mantri Suraksha Bima Yojana (PMSBY), which is a Personal Accident Insurance Scheme. The second is Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), which is the government's Life Insurance Scheme. Both the schemes offer basic

insurance at minimal rates and can be easily availed of through various government agencies and private sector outlets.

- The Uttar Pradesh government has launched a first of its kind banking and insurance services helpline for farmers where individuals can lodge their complaints on a toll free number.
- The select committee of the Rajya Sabha gave its approval to increase stake of foreign investors to 49 per cent equity investment in insurance companies.
- Government of India has launched an insurance pool to the tune of ₹ 1,500 crore (US\$ 220.08 million) which is mandatory under the Civil Liability for Nuclear Damage Act (CLND) in a bid to offset financial burden of foreign nuclear suppliers.

Despite strong improvement in penetration and density in the last 10 years, India largely remains an under-penetrated market. The market today is primarily dependent on push, tax incentives and mandatory buying for sales. There is very little customer pull, which will come from growing financial awareness and increasing savings and disposable income.

In the long run the insurance industry is still poised for a strong growth as the domestic economy is expected to grow steadily. This will lead to rise in per capita and disposable income, while savings are expected to be stable.

Insurance Growth Drivers in India

The demand for insurance products is likely to increase due to the exponential growth of household savings, purchasing power, the middle class and the country's working population. Listed below, are the various underlying growth drivers for India's insurance industry:

- Growing of the financial industry as a whole
- Growth of life and non-life industry
- Promoting innovation and removing inefficiency
- Competition and orderly growth
- Growth of specific insurance segments such as motor insurance

Emerging trends

- Multi-distribution i.e. increasing penetration through new modes of distribution such as the internet, direct and telemarketing and NGOs
- Product innovation i.e. increased levels of customization through product innovation
- Claims management i.e. timely and efficient management of claims to prevent delays which can increase the claims cost
- Profitable growth i.e. expanding product range, developing innovative products and expanding distribution channels
- Regulatory trends i.e. mandated regulatory changes by the IRDA to promote a competitive environment in both the life and non-life insurance sectors

Life insurance: Key Challenges

In FY12, the life insurance industry witnessed a decline in the first year premium collected which dropped from INR1, 258 billion in FY11 to INR1, 142 billion, a drop of approximately 10%. This was owing to the following challenges that the industry faced in

- Products strategy and design
- Cost
- Taxation
- Distribution
- Prospects and challenges of various channels
- Compensation
- Customer service
- Governance and regulatory issues

Non-life insurance: Factors Impacting Growth

The non-life insurance industry has been growing in excess of 20% over the last two years however the penetration was as low as 0.7% of the GDP in FY10. The key factors for growth include:

- Product pricing, innovation and simplicity
- Distribution
- Compensation
- Micro-insurance in non-life widening reach
- Governance and regulatory changes
- Health insurance
- Innovative products to counter the competition
- Improved fraud control mechanisms
- Standardization to reduce claims loss
- Reducing inefficiencies by revisiting third party administrator (TPA) agreements

Road Ahead

India's insurable population is anticipated to touch 750 million in 2020, with life expectancy reaching 74 years. Furthermore, life insurance is projected to comprise 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009-10.

The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers.

Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance.

The Indian insurance market is poised for strong growth in the long run. It stands at the threshold of moving towards a stable position, delivering “stable profitable growth.”

Significant latent market: The insurance market has a considerable amount of latent potential, given the fact that the Indian economy is expected to do well in the coming decades leading to increase in per capita incomes and awareness.

Channelizing industry focus: In meeting the significant potential, the industry has an increased role and responsibility. Three areas of focus could be (a) product innovation matching the risk profile of the policy holders (b) re-engineering the distribution and more significantly (c) making sales and marketing more responsible and answerable.

Distribution: Distribution channels evolved in response to market dynamics and changing consumer preferences. The alignment of economic incentives with distribution dynamics should be driven by market forces rather than regulatory intervention.

Regulation: The industry should be given time to adjust to regulatory changes in a phased manner aligned with a regulatory impact assessment. Regulations need to drive transparency and simplification of products and services.

The stakeholders should eventually work toward maintaining a favourable environment for stable growth, increasing the penetration of insurance to rural and underpenetrated areas and increasing the contribution to the economy.

Marketing Mix

Marketing professionals and specialist use many tactics to attract and retain their customers. These activities comprise of different concepts, the most important one being the marketing mix. There are two concepts for marketing mix: 4P and 7P.

It is essential to balance the 4Ps or the 7Ps of the marketing mix. The concept of 4Ps has been long used for the product industry while the latter has emerged as a successful proposition for the services industry.

The 7Ps of the marketing mix that are used to frame marketing strategies of life insurance companies can be discussed as:

Product: It must provide value to a customer but does not have to be tangible at the same time. Basically, it involves introducing new products or improvising the existing products. A product means what we produce. If we produce goods, it means tangible product & when we produce & generate services, it means intangible service product. A product is both what a seller has to sell & buyer has to buy. So, insurance companies sell services & services are their products. Apart from life insurance as product, customer not only buys product but also services in the form of assistance & advice of agent. It is natural that customers expect reasonable returns for their investments & insurance companies want to maximize their profitability. Hence while deciding the product mix services or schemes should be motivational.

Price: Pricing must be competitive and must entail profit. The pricing strategy can comprise discounts, offers and the like. The pricing of insurance products not only affects the sales volume and profitability but also influences the perceived quality in the minds of the consumers. There are several different methods for pricing insurance, based on the insurance marketer's corporate objectives. They are the survival approach, the sales maximization approach, and the profit maximization approach. To determine the insurance premium, marketers consider various factors such as mortality rate, investment earnings, and expenses, in addition to the individual risk profile based on age, health, etc.,

and the time period/ frequency of payment. In insurance business the pricing decisions are concerned with:

- The premium charged against policies
- The interest charged for defaulting the payment of premium & credit facility.
- Commission charged for underwriting & consultancy activities.

The pricing decisions may be high or low keeping in view the level or standard of customers or the policyholders. Mainly, pricing of insurance is in the form of premium rates. The three main factors used for determining the premium rates under a life insurance plan are mortality, expense & interest. The pricing of insurance is in form of premium rates. The three main factors for determining the premium rates under life insurance plan are:

Mortality: Average death rates in a particular area.

Expenses: The cost of processing, commission to agents, registration is all incorporated into the cost of installments & premium sum & forms the integral part of pricing strategy.

Interest: The rate of interest is one of the major factors which determine people's willingness to invest in insurance. People would not be willing to put their funds to invest in insurance business if the interest rates provided by other financial instruments are higher than the perceived returns from the insurance premiums.

Place: It refers to the place where the customers can buy the product and how the product reaches out to that place. This is done through different channels, like Internet, wholesalers and retailers. This component of marketing mix is related to two important facets-

- Managing the insurance personnel
- Locating a branch

The management of insurance personnel should be done in such a way that gap between the services promises-services offered is bridged over. In a majority of service generating organizations, such a gap is found existent which has been instrumental in making down the image problem. The insurance personnel if not managed properly would make all efforts insensitive. They are required to be given adequate incentives to show their excellence. They should be provided intensive trainings to focus mainly on behavioral management.

Another important dimension to the place mix is related to the location of insurance branches. While locating branches, branch manager needs to consider the number of factors such as smooth accessibility, availability of infrastructural facilities and management of branch offices and premises.

Thus place management of insurance premises needs a new vision, distinct approach & an innovative style. The branch managers need professional excellence to make place decisions productive.

Promotion: It includes the various ways of communicating to the customers of what the company has to offer. It is about communicating about the benefits of using a particular product or service rather than just talking about its features. The insurance services depend on effective promotional measures, so as to create impulsive buying. Promotion comprises of advertising & other publicity tactics. The promotion is a fight not only for market share, but also for mind share. The insurance services depend on effective promotional measures, so as to create impulsive buying.

Promotion comprises of advertising & other publicity tactics. Due attention should be given in selecting the promotional tools. Personnel should be given adequate training for creating impulsive buying.

People: People refer to the customers, employees, management and everybody else involved in it. It is essential for everyone to realize that the reputation of the brand that you are involved with is in the people's hands. Understanding the customer better allows to design appropriate products. Being a service industry which involves a high level of people interaction, it is very important to use this resource efficiently in order to satisfy customers. Training, development & strong relationships with intermediaries are the key areas to be kept under consideration.

Process: It refers to the methods and process of providing a service and is hence essential to have a thorough knowledge on whether the services are helpful to the customers, if they are provided in time, if the customers are informed in hand about the services and many such things. The process should be customer friendly in insurance industry. The speed & accuracy of payment is of immense importance. The processing method should be easy to & convenient to the customers. Installment schemes should be streamlined to cater to the ever growing demands of the customers. IT & Data warehousing will smoothen the process flow. IT will help in servicing the large no. of customers efficiently and bring down overheads. Technology can either complement or supplement the channels of distribution cost effectively. It also helps to improve customer service levels & helps to find out profitability & potential of various customers product segments.

Physical (evidence): It refers to the experience of using a product or service. When a service goes out to the customer, it is essential that you help him see what he is buying or not. For example- brochures, pamphlets etc serve this purpose. Evidence is a key element of success for all insurance companies. Physical evidence can be provided to insurance customers in the form of policy certificate and premium payment receipts. The office building, the ambiance, the service personnel etc. of the insurance company and their logo and brand name in advertisements also add to the physical evidence. To reach a profitable mass of customers, then new distribution avenues & alliances will be necessary. Initially insurance was looked upon as a complex product with a high advice & service component. Buyers prefer a face to face interaction & they place a high premium on brand names & reliability.

Distribution channels: The distribution network is most important in insurance industry. Insurance is not a high cost industry like telecom sector. Therefore it is building its market on goodwill and access on distribution network. We cannot deny that insurance are not bought, it is sold. The market has a great scope to grow. This can be better done by more innovative channels like a super market, a bank, a post office, an ATM, departmental store etc. these could be used to increase channels of insurance. But such growth in channels shall increase with time. Till then agents seem to be the most important distribution channel in this industry. Agents connect with people and influence them to buy any insurance policy. For the same such agents charge commission on the policies they get for the company. There is a fixed percentage of commission for which these agents work. In the field of distribution channels, many innovative techniques can be adopted. For example, Bancassurance and selling through postal network will make a great deal of difference. In Europe 25 percent of insurance policies are sold through banks. Bancassurance, as a package of financial services that can fulfill both banking and insurance needs, if implemented correctly can bring vast benefits to stakeholders such as banks, insurance companies, shareholders and consumers. Bancassurance will facilitate mass selling of insurance products through banks. Banks can act as large financial supermarkets. Distribution of insurance will be smoother through wider number of branches of the

banks. Customer database, personalized service, rural penetration, cross-selling of products (e.g. car loan along with car insurance), being cheaper than agents are some of the greatest advantages of Bancassurance. At present the distribution channels that are available in the market are listed below:

- Direct selling
- Corporate agents
- Group selling
- Brokers and cooperative societies
- Bancassurance
- Mallassurance

Life insurance industry requires new strategies in order to survive and survive successfully. To tap the insurance potential to maximum industry needs to frame such plans and strategies that will help to capture the market. Companies instead of focusing only on improving the variety of products needs to focus on targeting new segments and implement innovative strategies in order to achieve sustained growth and ensure profitability of business as well as growth of insurance coverage.

Education Industry

India holds an important place in the global education industry. The country has more than 1.4 million schools with over 227 million students enrolled and more than 36,000 higher education institutes. India has one of the largest higher education systems in the world. However, there is still a lot of potential for further development in the education system.

India has become the second largest market for e-learning after the US. The sector is currently pegged at US\$ 2-3 billion, and is expected to touch US\$ 40 billion by 2017. The distance education market in India is expected to grow at a Compound Annual Growth Rate (CAGR) of around 34 per cent during 2013-14 to 2017-18. Moreover, the aim of the government to raise its current gross enrollment ratio to 30 per cent by 2020 will also boost the growth of the distance education in India.

Market Size

The education sector in India is poised to witness major growth in the years to come as India will have world's largest tertiary-age population and second largest graduate talent pipeline globally by the end of 2020. As of now the education market is worth US\$ 100 billion. Currently, higher education contributes 59.7 per cent of the market size, school education 38.1 per cent, pre-school segment 1.6 per cent, and technology and multi-media the remaining 0.6 per cent.

Higher education system in India has undergone rapid expansion. Currently, India's higher education system is the largest in the world enrolling over 70 million students while in less than two decades, India has managed to create additional capacity for over 40 million students. At present, higher education sector witnesses spending of over ₹ 46,200 crore (US\$ 6.78 billion), and it is expected to grow at an average annual rate of over 18 per cent to reach ₹ 232,500 crore (US\$ 34.12 billion) in next 10 years.

India's IT firms are working with academic institutions and setting up in-house institutes to groom the right talent as these companies move to Social Media, Mobility, Analytics and Cloud (SMAC) technologies.

Investment

The total amount of Foreign Direct Investments (FDI) inflow into the education sector in India stood at US\$ 1,209.40 million from April 2000 to December 2016, according to data released by Department of Industrial Policy and Promotion (DIPP).

The education and training sector in India has witnessed some major investments and developments in the recent past. Some of them are:

- The Government of India aims to increase digital literacy to at least 50 per cent of Indians from currently 15 per cent over a period of next three years.
- US based multinational technology major Intel Corporation, has partnered with Extramarks Education, a digital learning solutions provider, to tap the US\$ 40 billion private school sector in India and thereby provide optimized learning solutions and extend computing technologies to students and schools in the country.
- EdCast, a technology education start-up based in Silicon Valley, plans to invest up to US\$ 50 million in education based technology and tie-up with around 500 educational institutions to build digital content and curriculum for educational institutions in India.
- The World Bank has extended US\$ 50 million loan to support Indian government's Nai Manzil scheme which aims to address educational and livelihood needs of minority communities through its educational and skill development programmes.
- Tata Trusts, part of the Tata Group, has entered in to a strategic partnership with web-based free learning portal, Khan Academy, and seeks to use technology to provide free education to anyone, anywhere in India.
- The Indian Institute of Science (IISc), Bangalore has become the first Indian institution to enter the Top 100 universities ranking in engineering and technology, published by The Times Higher Education of London.
- Five Indians, namely Mr Vijay Govindarajan, Mr Pankaj Ghemawat, Mr Subir Chowdhury, Mr Nirmalaya Kumar and Mr Anil K Gupta, have been named among the Top 50 management thinkers from 10 countries in the Thinkers50 2015 global ranking, which is published every two years.
- Venture capital fund Acumen has invested in two Hyderabad-based education start-ups—Ignis Careers (US\$ 250,000) and SEED (US\$ 650,000)—working in the low-cost school education space.
- India Educational Investment Fund (IEIF), an early stage impact investment fund focused on the educational sector funded by Dell Foundation, has made its first two investments in education-based startups: Report Bee and Guru-G.
- Tata Institute of Social Sciences (TISS) launched the 'School of Vocational Education' program to offer vocational training courses in 20 sectors or verticals in association with relevant training partners in 25 different cities across India.
- On the intervention of the Ministry of Human Resource Development, the Quality Council of India (QCI) is all set to roll out a training module for teachers after they pass the B.Ed. examination and enter teaching service.
- Anuna Education, a partner to National Skills Development Corporation (NSDC) has announced the e-Entrepreneurship Program in collaboration with eBay India. Anuna

Education will train entrepreneur to sell their products on eBay globally in collaboration with eBay India along with a practical training on how to sell the products to global buyers.

- The Confederation of Indian Industry (CII) has launched Strategic Manufacturing Skill Council (SMSC) to train workforce for defence equipment manufacturing, ship building and repair, homeland security equipment and other fire fighting equipment.
- The Central Board of Secondary Education (CBSE) has mandated the appointment of a special educator for children with learning disabilities so that they could be assimilated with other students. This directive came as a part of “inclusive practices” philosophy of CBSE and strict guidelines of ‘Right to Education’ Act.
- In an attempt to improve health care infrastructure in West Bengal, nine new medical colleges will be opened, out of which five will be government-run while the other four will be set up under the Public Private Partnership (PPP) model

Government Initiatives

Some of the other major initiatives taken by the Government of India are:

- The Union budget 2016-17 has made the following provisions for the education sector:
 - 10 public and 10 private educational institutions to be made world-class
 - Scheme to get ₹ 500 crore (US\$ 73.36 million) for promoting entrepreneurship among Schedule Caste/Scheduled Tribe (SC/ST)
 - Digital Repository for all school leaving certificates and diplomas
 - ₹ 1,000 crore (US\$ 146.72 million) allocated for higher education financing
 - ₹ 1,700 crore (US\$ 250 million) allocated for 1500 multi-skill development centres
 - 62 new Jawahar Navodaya Vidyalayas (JNV) to provide quality education
 - Digital literacy scheme to be launched for covering six crore additional rural households
 - Objective to skill one crore youth in the next three years under the Pradhan Mantri Kaushal Vikas Yojna (PMKVY)
- The Government of India has signed a financing agreement with The World Bank, for International Development Association (IDA) credit of US\$ 300 million, for the Madhya Pradesh Higher Education Quality Improvement Project, which aims to improve student outcomes, especially of disadvantaged groups in selected Higher Education Institutions (HEIs) and increase the effectiveness of the higher education system in Madhya Pradesh.
- The Human Resource Development (HRD) Ministry has entered into a partnership with private companies, including Tata Motors Ltd, Tata Consultancy Services Ltd and real-estate firm Hubtown Ltd, to open three Indian Institutes of Information Technology (IIITs), through Public-Private Partnership (PPP), at Nagpur, Ranchi, and Pune.
- Prime Minister Mr Narendra Modi launched the Skill India initiative – ‘Kaushal Bharat, Kushal Bharat’. Under this initiative, the government has set itself a target of training 400 million citizens by 2022 that would enable them to find jobs. The initiatives launched include various programmes like: Pradhan Mantri Kaushal Vikas Yojana (PMKVY), National Policy for Skill Development and Entrepreneurship 2015, Skill Loan scheme, and the National Skill Development Mission.

- PMKVY is the flagship program under the Skill India Initiative and it includes incentivising skill training by providing financial rewards on completion of training to the participants. Over the next year 2.4 million Indians are believed to be benefitted from this scheme.
- National Policy for Skill Development and Entrepreneurship 2015 is India's first integrated program to develop skill and promote entrepreneurship simultaneously. The vision of this programme is to skill the Indian youth rapidly with high standards and at the same time promote entrepreneurship thus creating wealth and gainful employment for the citizens.
- Skill Loan Scheme is designed to disburse loans of ₹ 5,000 (US\$ 75.3) to ₹ 150,000 (US\$ 2,260) to 3.4 million Indians planning to develop their skills in the next five years.
- The National Skill Development Mission is developed to expedite the implementation of skill-based activities in India by providing robust institutional framework at the centre and the state.
- The Japan International Cooperation Agency (JICA) will train bureaucrats from the HRD ministry, experts from schools boards and primary school teachers in Mathematics and Science Subjects to enable them to learn skills to formulate lesson plans that stimulate students' learning and thus contribute to improving the quality of Mathematics and science education.
- The Government of India has launched a digital employment exchange that will enable industrial enterprises to find suitable workers and job-seekers to find employment.
- The Government of India has launched the National Web Portal for promotion of National Apprenticeship Scheme for Graduates, Diploma holders and 10+2 pass-outs vocational certificate holders.
- India and Australia have signed a Memorandum of Understanding (MoU) to boost partnerships between the two countries in the fields of higher education and research, including technical and professional education, schools, vocational education and training.

Road Ahead

Various government initiatives are being adopted to boost the growth of distance education market, besides focusing on new education techniques, such as E-learning and M-learning.

Education sector has seen a host of reforms and improved financial outlays in recent years that could possibly transform the country into a knowledge haven. With human resource increasingly gaining significance in the overall development of the country, development of education infrastructure is expected to remain the key focus in the current decade. In this scenario, infrastructure investment in the education sector is likely to see a considerable increase in the current decade.

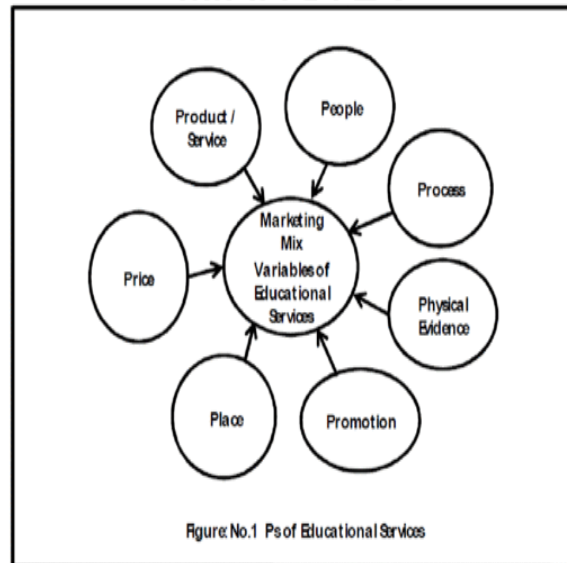
Moreover, availability of English speaking tech-educated talent, democratic governance and a strong legal and intellectual property protection framework are enablers for world class product development, as per Mr Amit Phadnis, President-Engineering and Site Leader for Cisco (India).

- The Government of India has taken several steps including opening of IIT's and IIM's in new locations as well as allocating educational grants for research scholars in most government institutions. Furthermore, with online modes of education being used by several educational

organizations, the higher education sector in India is set for some major changes and developments in the years to come.

7 P's OF EDUCATION

INDIANCTDV



PRODUCTS

In case of educational services, the product means the students and the services means the intangible offers made by the educational institutions.

PRICE

The price is the amount a student pays for the services availed by him or her. It is determined by a number of factors including competition, service quality, placement, reputation of the institution, private or public ownership, infrastructure, facilities provided, location of the institute, mode of education, brand name of the educational institution etc.

PLACE

Place represents the location where an educational institute is established. It is often referred to as the service centre. If the institute is located at a Metro city, it will provide much more competitive edge, than if it is located in rural place, So, place is also a vital promotional tool for them.

PROMOTION

Educational institute emphasizes mainly on two components of promotion viz. Advertising and web-based marketing.

PEOPLE

Here, the people mean teaching fraternity and non-teaching community directly and indirectly associated with the services rendered to the students.

Satisfaction and retention of the students solely depends on the way the teachers are in a position to deliver their best services to them.

PROCESS

The procedures mechanisms and flow of

PHYSICAL EVIDENCE

It is the direct sensory experience of a service that allows a student to measure whether he or she has received adequate facilities by the educational institution. It might include state-of-art technology, building, total ambience, parking facility, play ground, gymnasium, swimming pool, indoor stadium, transportation facility, hostel, AC class room facility, computer laboratory, canteen, library, number of books and journals, different modern teaching aid etc.

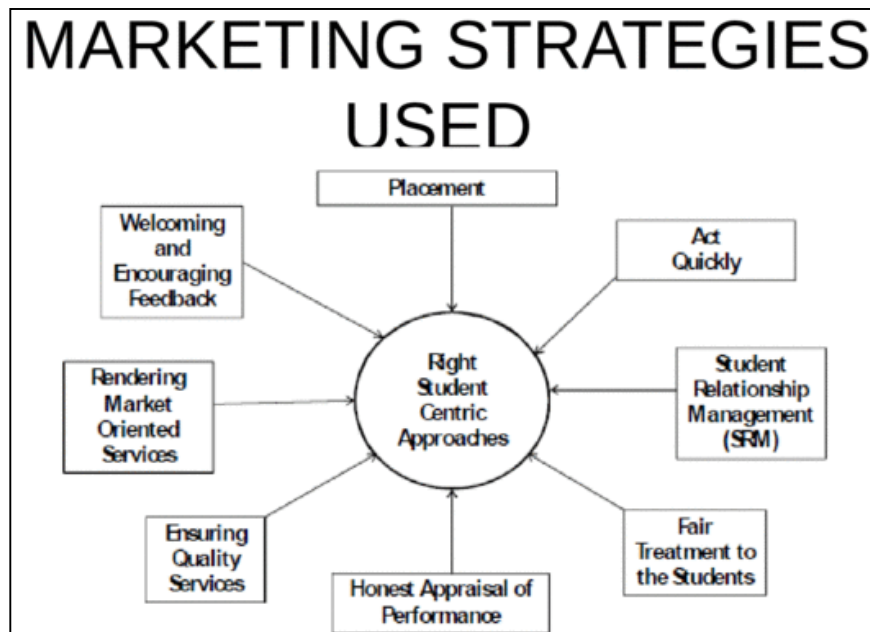
Gap in Education Industry

Gap1: Education institutions do not know the expectations of the students.

Gap 2: Institutions are not having the desired service designs and standards to meet the requirements of the students.

Gap 3: Educational institutions are not delivering service standards as required to deliver.

Gap 4: They are not matching performance they are supposed to show and promises communicated to the students.



IT INDUSTRY

India is the world's largest sourcing destination for the information technology (IT) industry, accounting for approximately 67 per cent of the US\$ 124-130 billion market. The industry employs about 10 million workforce. More importantly, the industry has led the economic transformation of the country and altered the perception of India in the global economy. India's cost competitiveness in providing IT services, which is approximately 3-4 times cheaper than the US, continues to be the mainstay of its Unique Selling Proposition (USP) in the global sourcing market. However, India is also gaining prominence in terms of intellectual capital with several global IT firms setting up their innovation centres in India.

The IT industry has also created significant demand in the Indian education sector, especially for engineering and computer science. The Indian IT and ITeS industry is divided into four major segments – IT services, Business Process Management (BPM), software products and engineering services, and hardware.

The IT-BPM sector which is currently valued at US\$ 143 billion is expected to grow at a Compound Annual Growth Rate (CAGR) of 8.3 per cent year-on-year to US\$ 143 billion for 2015-16. The sector is expected to contribute 9.5 per cent of India's Gross Domestic Product (GDP) and more than 45 per cent in total services export in 2015-16.

Market Size

The Indian IT sector is expected to grow at a rate of 12-14 per cent for FY2016 in constant currency terms. The sector is also expected triple its current annual revenue to reach US\$ 350 billion by FY 2025, as per National Association of Software and Services Companies (NASSCOM).

India, the fourth largest base for new businesses in the world and home to over 3,100 tech start-ups, is set to increase its base to 11,500 tech start-ups by 2020, as per a report by NASSCOM and Zinnov Management Consulting Pvt Ltd.

India's internet economy is expected to touch Rs 10 trillion (US\$ 146.72 billion) by 2018, accounting for 5 per cent of the country's GDP, according to a report by the Boston Consulting Group (BCG) and Internet and Mobile Association of India (IAMAI). India's internet user base reached over 350 million by June 2015, the third largest in the world, while the number of social media users grew to 143 million by April 2015 and smart-phones grew to 160 million.

Public cloud services revenue in India is expected to reach US\$ 838 million in 2015, growing by 33 per cent year-on-year (y-o-y), as per a report by Gartner Inc. In yet another Gartner report, the public cloud market alone in the country was estimated to treble to US\$ 1.9 billion by 2018 from US\$ 638 million in 2014. Increased penetration of internet (including in rural areas) and rapid emergence of e-commerce are the main drivers for continued growth of data centre co-location and hosting market in India.

Investments

Indian IT's core competencies and strengths have attracted significant investments from major countries. The computer software and hardware sector in India attracted cumulative Foreign Direct Investment (FDI) inflows worth US\$ 20.42 billion between April 2000 and December 2015, according to data released by the Department of Industrial Policy and Promotion (DIPP).

Indian start-ups are expected to receive funding worth US\$ 5 billion by the end of 2015, a 125 per cent increase in a year, according to a report by IT Industry association NASSCOM.

The Private Equity (PE) deals increased the number of Mergers and Acquisitions (M&A) especially in the e-commerce space in 2014. The IT space, including e-commerce, witnessed 240 deals worth US\$ 3.8 billion in 2014, as per data from Dealogic.

India also saw a ten-fold increase in the venture funding that went into internet companies in 2014 as compared to 2013. More than 800 internet start-ups got funding in 2014 as compared to 200 in 2012, said Rajan Anandan, Managing Director, Google India Pvt Ltd and Chairman, IAMA.

About 554 start-ups received funding this year compared to 342 during last year. Seed and venture capital funds made investments worth US\$ 3.4 billion this year, three times the investment made last year. VC funding to the IT & ITes sector amounted to 55 per cent of total VC funding made this year.

Most large technology companies looking to expand have so far focused primarily on bigger enterprises, but a report from market research firm Zinnov highlighted that the small and medium businesses will present a lucrative opportunity worth US\$ 11.6 billion in 2015, which is expected to grow to US\$ 25.8 billion in 2020. Moreover, India has nearly 51 million such businesses of which 12 million have a high degree of technology influence and are looking to adopt newer IT products, as per the report.

Some of the major developments in the Indian IT and ITes sector are as follows:

- PurpleTalk Inc, a US based mobile solutions company, has invested US\$ 1 million in Nukkad Shops, a Hyderabad based uber-local commerce platform that helps neighbourhood retail stores take their businesses online through a mobile app.
- KartRocket, a Delhi based e-commerce enabler has completed its US\$ 8 million funding round by raising US\$ 2 million from a Japanese investor, which will be used to enhance Kraftly, a mobile-first online-to-offline marketplace targeting small sellers, individuals and home-based entrepreneurs in India in product categories such as apparel and accessories.
- JustRide, a self-drive car rental aggregator, has raised US\$ 400,000 in pre-series A round of funding from a group of angel investors, including Redcliffe Capital's Mr Dheeraj Jain, which will be used to enhance its technology.
- Mumbai-based baby care and kids products e-tailer, Hopscotch.in, has raised US\$ 13 million in a Series C round of funding from Facebook co-founder Mr Eduardo Saverin, which will help the firm in growth and expansion of its technology platform.
- MoMark Services, a mobile based customer engagement platform for small and medium businesses, has raised US\$ 600,000 from YourNest Angel Fund and LNB Group, to scale up its product offerings and talent acquisition.
- Shoutout, a social discovery app by Giant Tech Labs Pvt Ltd, which helps consumers discover deals, buy event tickets or redeem coupons, has raised US\$ 500,000 in angel funding from a high net-worth individual angel investor based in India.
- Apple Inc. plans to set up its first technology development centre outside the US in Hyderabad with an investment of US\$ 25 million, which is expected to create 4,500 jobs, as per Mr Jayesh Ranjan, Secretary, IT for the state of Telangana.

- Xpressbees, an e-commerce logistics firm operated by Busybees Logistics Solutions Private Limited, has raised US\$ 12.5 million in a Series A funding, led by its existing investors SAIF Partners, IDG Ventures, Vertex Ventures and Valiant Capital, which will be used to strengthen technology initiatives and processes of the firm.
- Housejoy, an online home services provider, has raised Rs 150 crore (US\$ 22 million) in a Series B round of funding led by Amazon, and which also includes new investors such as Vertex Ventures, Qualcomm and Ru-Net Technology Partners.
- Global PE firm Blackstone Group has acquired a minority stake in an Indian travel, transportation and logistics software firm, IBS Software, for US\$ 170 million, by buying the stake from General Atlantic and few other shareholders.
- India's top-tier IT company, Infosys Ltd, has bought a minority stake worth US\$ 3 million in Whoop, which is a US-based start-up that makes activity trackers worn by athletes.
- Microsoft Ventures is planning to incubate 500 start-ups in India in the next five years with a vision to create a viable and profitable business out of the booming start-up sector in India.
- National Association of Software and Services Companies (NASSCOM) plans to open four more tech start-up incubation centres in different parts of India, in addition to existing three, in support of Government of India's 'Start-up India' initiative.
- Nasscom Foundation, a non-profit organization which is a part of Nasscom, has partnered with SAP India to establish 25 National Digital Literacy Mission (NDLM) centres in 12 cities across India, as a part of Government of India's Digital India initiative.
- Infosys, India's second largest Information Technology services company has acquired US-based Noah Consulting, a provider of advanced information management consulting services for the oil and gas industry.
- US-based Callidus Software Inc, cloud-based sales, marketing, learning and customer experience solutions provider, has opened its centre in Hyderabad and also launched its 'The Lead to Money' suite in Indian markets.
- Wipro Ventures, Wipro's US\$ 100 million corporate venture arm, plans to invest in early-stage Venture Capital (VC) funds based in the US to pursue a strategy of investing/partnering country-focussed VCs.
- A recent study by research firm International Data Corporation (IDC) suggests that India may soon be able to catch up with the global technology trends that have disrupted enterprises, industry and the way consumers behave and transact.
- Reliance is building a 650,000 square feet (sq ft) data centre in India—its 10th data centre in the country—with a combined capacity of about 1 million sq ft and an overall investment of US\$ 200 million.
- Intel Corp plans to invest about US\$ 62 million in 16 technology companies, working on wearable, data analytics and the Internet of Things (IoT), in 2015 through its investment arm Intel Capital. The Indian IoT industry is expected to be worth US\$ 15 billion and to connect 28 billion devices to the internet by 2020.
- Indian e-commerce industry is expected to grow at a CAGR of 35 per cent to reach US\$ 100 billion size in the next five years, as per a study by Assocham-PricewaterhouseCoopers.

Government Initiatives

Some of the major initiatives taken by the government to promote IT and ITeS sector in India are as follows:

- Mr Ravi Shakar Prasad, Minister of Communication and Information Technology, announced plan to increase the number of common service centres or e-Seva centres to 250,000 from 150,000 currently to enable village level entrepreneurs to interact with national experts for guidance, besides serving as a e-services distribution point.
- The Railway Ministry plans to give a digital push to the India Railways by introducing bar-coded tickets, Global Positioning System (GPS) based information systems inside coaches, integration of all facilities dealing with ticketing issues, Wi-Fi facilities at the stations, super-fast long-route train service for unreserved passengers among other developments, which will help to increase the passenger traffic.
- The e-Tourist Visa (e-TV) scheme has been extended to 37 more countries thereby taking the total count of countries under the scheme to 150 countries.
- Department of Electronics & Information Technology and M/s Canbank Venture Capital Fund Ltd plan to launch an Electronics Development Fund (EDF), which will be a 'Fund of Funds' to invest in 'Daughter Funds' which would provide risk capital to companies developing new technologies in the area of electronics, nano-electronics and Information Technology (IT).
- The Human Resource Development (HRD) Ministry has entered into a partnership with private companies, including Tata Motors Ltd, Tata Consultancy Services Ltd and real-estate firm Hubtown Ltd, to open three Indian Institutes of Information Technology (IIITs), through public-private partnership (PPP), at Nagpur, Ranchi and Pune.
- Government of India is planning to develop five incubation centres for 'Internet of Things' (IoT) start-ups, as a part of Prime Minister Mr Narendra Modi's Digital India and Startup India campaign, with at least two centres to be set up in rural areas to develop solutions for smart agriculture.
- According to research firm Gartner Inc, the Indian government is expected to increase its spending on information technology (IT) products and services by 5.2 per cent to US\$ 6.88 billion in FY 2015-16.
- The Government of India has launched the Digital India program to provide several government services to the people using IT and to integrate the government departments and the people of India. The adoption of key technologies across sectors spurred by the 'Digital India Initiative' could help boost India's Gross Domestic Product (GDP) by US\$ 550 billion to US\$ 1 trillion by 2025, as per research firm McKinsey.
- India and the US have agreed to jointly explore opportunities for collaboration on implementing India's ambitious Rs 1.13 trillion (US\$ 16.58 billion) 'Digital India Initiative'. The two sides also agreed to hold the US-India Information and Communication Technology (ICT) Working Group in India later this year.
- The Government of Telangana has begun construction of a technology incubator in Hyderabad—dubbed T-Hub—to reposition the city as a technology destination. The state government is initially investing Rs 35 crore (US\$ 5.14 million) to set up a 60,000 sq ft space, labelled the largest start-up incubator in the county, at the campus of International Institute of

Information Technology-Hyderabad (IIIT-H). Once completed, the project is proposed to be the world's biggest start-up incubator housing 1,000 start-ups.

Road Ahead

India is the topmost off-shoring destination for IT companies across the world. Having proven its capabilities in delivering both on-shore and off-shore services to global clients, emerging technologies now offer an entire new gamut of opportunities for top IT firms in India. Social, Mobility, Analytics and Cloud (SMAC) are collectively expected to offer a US\$ 1 trillion opportunity. Cloud represents the largest opportunity under SMAC, increasing at a CAGR of approximately 30 per cent to around US\$ 650-700 billion by 2020. The social media is the second most lucrative segment for IT firms, offering a US\$ 250 billion market opportunity by 2020. The Indian e-commerce segment is US\$ 12 billion in size and is witnessing strong growth and thereby offers another attractive avenue for IT companies to develop products and services to cater to the high growth consumer segment.

Entertainment Industry

The Indian Media and Entertainment (M&E) industry is a sunrise sector for the economy and is making high growth strides. Proving its resilience to the world, the Indian M&E industry is on the cusp of a strong phase of growth, backed by rising consumer demand and improving advertising revenues.

The industry has been largely driven by increasing digitization and higher internet usage over the last decade. Internet has almost become a mainstream media for entertainment for most of the people.

Market Dynamics

The Indian media & entertainment sector is expected to grow at a Compound Annual Growth Rate (CAGR) of 13.9 per cent year-on-year to reach Rs 196,400 crore (US\$ 28.82 billion) by 2019..

In 2015, the overall Media and Entertainment industry grew 11.7 per cent over 2014@. The largest segment, India's television industry, is expected to maintain its strong growth momentum led by subscription revenues, representing a year-on-year growth of about 13.2 per cent to reach ₹ 60,000 crore (US\$ 8.8 billion) in 2015.

Significantly, with the increased penetration of smart-phones and expansion of 3G/4G network in India, the country is likely to see around nine billion mobile application (apps) downloads during 2015, which is five times more than 1.56 billion in 2012. This uptick in app-downloads is also expected to increase the revenue from paid apps to an estimated over US\$ 241.16 million as against US\$ 144.7 million in 2014.

Industry estimates reveal that video games industry grew at a record 22.4 per cent in 2014 over 2013, wherein its net worth rose to US\$ 392 million. The Indian animation industry was valued at US\$ 748 million in 2014 and is forecasted to grow at 15-20 per cent per annum.

The Foreign Direct Investment (FDI) inflows in the information and broadcasting (I&B) sector (including print media) in the period April 2000 – December 2015 stood at US\$ 4.55billion, as per data released by Department of Industrial Policy and Promotion (DIPP).

Example: Government announced 100% FDI in cable services, teleport and Head end in the sky(HITS). FDI in news and current affairs channel and FM radio has been increased to 49% from 26%.

Recent development/Investments

- US based investment firm Tiger Global Management LLC has acquired a 25 per cent stake in 'The Viral Fever' (TVF), an online video content creator, for US\$ 10 million.
- Balaji Telefilms Limited (Balaji Telefilms) has raised ₹ 150.08 crore (US\$ 22.09 million) through allotment of equity shares on *preferential* basis to catapult the launch and growth of ALT Digital Media, a Business-to-Consumer(B2C) digital content business segment of Balaji Group.
- Global video-streaming service Netflix has entered India as high-speed Internet connectivity is becoming rapidly available to Indians and nearly one-fifth of the India's 1.3 billion population is now online.
- Reliance Entertainment (owned by Mr Anil Ambani) and DreamWorks (led by Mr Steven Spielberg), along with Participant Media (led by Mr Jeff Skoll) and Entertainment One (eOne) have formed a new film, television and digital content creation company called 'Amblin Partners', and have raised US\$ 500 million in debt to develop and produce films.
- ScoopWhoop, an Indian digital media and content start-up, has raised US\$ 4 million from Kalaari Capital and plans to use the funds for expansion of its video production unit called ScoopWhoop Talkies.
- Mobvista International Technology Ltd, a global mobile advertising and game publishing company, plans to increase its investment in India by US\$ 100 million over 2015-18, with a view to capture a bigger share of the booming e-commerce and ad-tech space.
- The digital arm of New Delhi Television Limited (NDTV) namely NDTV Convergence, that owns and operates the NDTV group's digital properties, has signed a deal worth US\$ 13-15 million with content discovery platform Taboola.
- Cinopolis India Private Limited, the Indian movie exhibition arm of Mexican chain Cinopolis, has plans to add 60 screens to take its total count to over 250 screens by the end of 2015.
- Turner International India has announced the expansion of its television bouquet for children with the launch of Toonami, a channel dedicated to animated action. This is the American company's third children's channel in India after Cartoon Network and POGO. Toonami joins an assortment of over 15 channels in the kids' genre, which attracts close to ₹ 500 crore (US\$ 73.36 million) in advertising.
- San Francisco-based Twitter Inc. plans to set up a Research and Design (R&D) centre in Bengaluru to grow faster in emerging markets. This will be Twitter's first such facility outside the US.
- STAR India, a unit of 21st Century Fox, acquired the entire broadcast business of MAA Television Network Limited for an undisclosed amount.
- Carnival Films Private Limited acquired Stargaze Entertainment Private Limited, a multiplex company, from a unit of MukeshAmbani-controlled Network18 Media and Investments Limited.

Government Initiatives

The Government of India has supported Media and Entertainment industry's growth by taking various initiatives such as digitizing the cable distribution sector to attract greater institutional funding,

increasing FDI limit from 74 per cent to 100 per cent in cable and DTH satellite platforms, and granting industry status to the film industry for easy access to institutional finance.

The Government is planning to set up a National *Centre of Excellence* for media, which will provide training to the industry professionals, and has also decided to fund movies, including Bollywood and regional films, for participating in foreign film festivals.

The Union Budget 2016-17 has proposed basic custom duty exemption on newsprint. The customs duty on wood in chips or particles for manufacture of paper, paperboard and newsprint has been reduced to 0 per cent from 5 per cent.

Recently, the Indian and Canadian governments have signed an audio-visual co-production deal that would help producers from both countries to explore their technical, creative, artistic, financial and marketing resources for co-productions and, subsequently, lead to exchange of culture and art amongst them.

Furthermore, the Centre has given the go-ahead for licences to 45 new news and entertainment channels in India. Among those who have secured the licenses include established names such as Star, Sony, Viacom and Zee. Presently, there are 350 broadcasters which cater to 780 channels. "We want more competition and we wanted to open it up for the public. So far, we have approved the licences of 45 new channels. It's a mix of both news and non-news channels," said Mr Bimal Julka, Secretary, Ministry of I&B, Government of India.

The radio industry is expected to witness growth opportunities after the Phase III auction of 839 radio channels in 294 cities, expected to complete later this year. The Phase III auction, which started in July 2015, is expected to bring in an estimated US\$ 390 million in revenue to the government. With over 800 frequencies up for auction in third- and fourth-tier towns, radio is likely to match the reach of print.

The Union Cabinet chaired by the Prime Minister, Mr Narendra Modi, has given its approval for entering into an Audio-Visual Co-Production Agreement between India and the Republic of Korea (RoK) and to complete internal ratification procedure, to enable the agreement to come into force. Cooperation between the film industries of the two countries will not only promote export of Indian films but would also act as a catalyst towards creating awareness about India and its culture.

Road Ahead

The Indian Media and Entertainment industry is on an impressive growth path. The revenue from advertising is expected to grow at a CAGR of 13 per cent and will exceed ₹ 81,600 crore (US\$ 12.29 billion) in 2019 from ₹ 41,400 crore (US\$ 6.24 billion) in 2014. Internet access has surpassed the print segment as the second-largest segment contributing to the overall pie of M&E industry revenues.

Television and print are expected to remain the largest contributors to the advertising pie in 2018 as well. Internet advertising will emerge as the third-largest segment, with a share of about 16 per cent in the total M&E advertising pie. The film segment which contributed ₹ 12,640 crore (US\$ 1.90 billion) in 2014 is projected to grow steadily at a CAGR of 10 per cent on the back of higher domestic and overseas box-office collections as well as cable and satellite rights.

Digital advertising is expected to lead the CAGR with 30.2 per cent, followed by radio with 18.1 per cent. Animation and VFX, and television are expected to register a CAGR of 16.3 per cent and 15.5 per cent respectively, followed by growth rates of gaming (14.3 per cent), music (14.0 per cent),

films (10 per cent) and OOH with 9.8 per cent expected CAGR. Within TV, subscription revenues are expected to be three times more than advertising revenues, by 2018. Growth in the regional reach of print and radio shall provide opportunities to further improve the advertisement revenue.

Example: The Mobile Gaming Market in India is estimated to be worth \$ 150 mill by 2015. Smart-phone installation base has reached 200 mill by 2015 end. It is projected to grow 100 mill each year. Approximately 40-50mn people play games on their smart-phones and feature phones, and its growing @ 40-50% per year. More than 50% of the Indian game developers and service providers were established from 2012 onward and the Industry follows a lean structures with 57% of companies having less than 10 employees.

Ethics in Service Marketing

Marketing ethics is an area of applied ethics which deals with the moral principles behind the operation and regulation of marketing. Some areas of marketing ethics (ethics of advertising and promotion) overlap with media ethics.

Ethical Marketing is a philosophy that focus focuses on honesty, fairness and responsibility. Though wrong and right are subjective, a general set of guidelines can be put in place to ensure the company's intent is broadcast and achieved. Principles of this practice include:

- A shared standard of truth in marketing communications
- A clear distinction between advertising and sensationalism
- Endorsements should be clear and transparent
- Consumers' privacy should be maintained at all times
- Government standards and regulations must be adhered and practiced by marketers.

There are 6 ethical values that marketers are expected to uphold, and these are:

- **Honesty:** Be forthright in dealings and offer value and integrity.
- **Responsibility:** Accept consequences of marketing practices and serve the needs of customers of all types, while being good stewards of the environment.
- **Fairness:** Balance buyer needs and seller interest fairly, and avoid manipulation in all forms while protecting the information of the consumers.
- **Respect:** Acknowledge basic human dignity of all the people involved through efforts to communicate, understand and meet needs and appreciate contributions of others.
- **Transparency:** Create a spirit of openness in the practice of marketing through communication, constructive criticism, action, and disclosure.
- **Citizenship:** Fulfill all legal, economic, philanthropic and societal responsibilities to all stakeholders as well as giveback to the community and protect the ecological environment.

Marketing refers to the dissemination of information to the public about the products or services a business offers. As a service-oriented business, a firm may want to inform the public about its services and entice them to patronize its business. To do that, it may boast of the benefits a person would receive from its services. However, ethical issues could arise if a person accepts its invitation to use the services, and the firm do not deliver as promised.

False Advertising

A lawyer serves clients by representing them on various legal issues. The highly regulated legal services field actually has a code of ethics by which lawyers must abide. Failing to abide by this code of ethics can land a lawyer in a disciplinary action. Therefore, when marketing his services, a lawyer should ensure that he can deliver the type of services he has been advertising. A potential ethical issue can arise when the lawyer cannot do so. For example, if a lawyer markets himself to doctors as a medical malpractice law expert, yet he has not had any medical malpractice cases, he can be subjecting himself to future disciplinary action.

Misleading the Public

The field of personal training offers services to individuals who want to get into better physical shape. A good way for a personal trainer to market his services is to inform people of his education and credentials as a personal trainer. If he specializes in a certain segment of the population, such as women, he can market to women who want to lose weight. On the other hand, if he puts out an advertisement featuring one of his best female clients as a success story, he can be crossing the line. The trainer may mislead potential clients into thinking that their results will mirror those of that particular client.

Exaggerations

Around the first of the year, TV viewers find their screens inundated with weight-loss commercials. These services offer meal plans that supposedly enable people to shed pounds. The ads also usually feature an out-of-work actress who has recently shed pounds on the weight-loss program. An ethical issue can arise if the weight-loss company uses a middle-aged celebrity who recently gained tons of weight carrying twins. Months after giving birth, the company features her in these commercials in a midriff-baring outfit. The company boasts that she regained her figure by using its program when in actuality she had a mommy-makeover, which included a tummy tuck.

Importance of Ethics

Organizations need to abide by ethics or rule of law, engage themselves in fair practices and competition; all of which will benefit the consumer, the society and organization.

Primarily it is the individual, the consumer, the employee or the human social unit of the society who benefits from ethics. In addition ethics is important because of the following:

- 1. Satisfying Basic Human Needs:** Being fair, honest and ethical is one the basic human needs. Every employee desires to be such himself and to work for an organization that is fair and ethical in its practices.
- 2. Creating Credibility:** An organization that is believed to be driven by moral values is respected in the society even by those who may have no information about the working and the businesses or an organization. Infosys, for example is perceived as an organization for good corporate governance and social responsibility initiatives. This perception is held far and wide even by those who do not even know what business the organization is into.
- 3. Uniting People and Leadership:** An organization driven by values is revered by its employees also. They are the common thread that brings the employees and the decision makers on a common platform. This goes a long way in aligning behaviors within the organization towards achievement of one common goal or mission.

4. **Improving Decision Making:** A man's destiny is the sum total of all the decisions that he/she takes in course of his life. The same holds true for organizations. Decisions are driven by values. For example an organization that does not value competition will be fierce in its operations aiming to wipe out its competitors and establish a monopoly in the market.
5. **Long Term Gains:** Organizations guided by ethics and values are profitable in the long run, though in the short run they may seem to lose money. Tata group, one of the largest business conglomerates in India was seen on the verge of decline at the beginning of 1990's, which soon turned out to be otherwise. The same company's Tata NANO car was predicted as a failure, and failed to do well but the same is picking up fast now.
6. **Securing the Society:** Often ethics succeeds law in safeguarding the society. The law machinery is often found acting as a mute spectator, unable to save the society and the environment. Technology, for example is growing at such a fast pace that the by the time law comes up with a regulation we have a newer technology with new threats replacing the older one. Lawyers and public interest litigations may not help a great deal but ethics can.

Ethics tries to create a sense of right and wrong in the organizations and often when the law fails, it is the ethics that may stop organizations from harming the society or environment.

Unethical Practices in Marketing

A list of known unethical or controversial marketing strategies:

1. Anti-competitive practices- are business, government or religious practices that prevent or reduce competition in a market. Example- Dumping, Exclusive Dealing, Price Fixing, Refusal to Deal, Dividing Territories, etc.
2. Bait and switch- customers are "baited" by merchants' advertising products or services at a low price, but when customers visit the store, they discover that the advertised goods either are not available^[1] or are not as good as was expected, or the customers are pressured by sales people to consider similar, but higher-priced, items ("switching").
3. Planned obsolescence- policy of planning or designing a product with an artificially limited useful life, so it will become obsolete, that is, unfashionable or no longer functional after a certain period of time. The rationale behind the strategy is to generate long-term sales volume by reducing the time between repeat purchases.
4. Pyramid scheme- business model that recruits members via a promise of payments or services for enrolling others into the scheme, rather than supplying investments or sale of products or services. As recruiting multiplies, recruiting becomes quickly impossible, and most members are unable to profit; as such, pyramid schemes are unsustainable and often illegal.
5. Vendor lock-in/Vendor lock-out- makes a customer dependent on a vendor for products and services, unable to use another vendor without substantial switching costs.
6. Viral marketing/guerilla marketing- referring to marketing techniques that use pre-existing social networking services and other technologies to try to produce increases in brand awareness or to achieve other marketing objectives (such as product sales) through self-replicating viral processes, analogous to the spread of viruses or computer viruses. It can be delivered by word of mouth or enhanced by the network effects of the Internet and mobile networks. Guerrilla marketing is an advertisement strategy concept designed for businesses to promote their products or services in an unconventional way with little budget to spend. This

involves high energy and imagination focusing on grasping the attention of the public in more personal and memorable level.

7. Subliminal advertising - any sensory stimuli below an individual's threshold for conscious perception.

Examples:-

CitiBank: Deciding to spend \$50 million on a new private jet after taking \$45 billion in taxpayer funds to stay afloat, as Citibank did is a textbook example of bad business ethics. To make matters worse for CitiBank, CEO Vikram Pandit lied to Congress that he received a compensation of one million a year when the actual figure was \$11 million. Companies indulge in unethical business conduct primarily to maximize profits. However, rubbing customers and other stakeholders the wrong way in the quest to maximize profits can be self-defeating and lead to loss of valuable patronage.

Walmart: Wal-Mart very often finds itself slapped with lawsuits that accuse it of predatory pricing, or pricing products too low to drive competition out of business and gain a monopoly in local markets. Among several lawsuits, the one in 2003 struck, where Germany's High Court ruled Wal-Mart's low-cost pricing strategy "undermined competition."

Wal-Mart also faced charges of monopoly, by making suppliers dependent on them and forcing them to indulge in self-defeating practices, such as pressuring them to sell goods below cost or at prices lower than they would get elsewhere.

Wal-Mart regularly faces lawsuits from employees accusing the company of forcing them to work overtime without pay and denying them health insurance. The allegations against Wal-Mart are so numerous that it is a common example for bad ethics.

REVIEW QUESTIONS

State Whether the Following Statement are True or False

1. Before deciding on specific marketing activities, organizations must better understand their global strategy.
2. International expansion does not provides the opportunity for new sales and profits.
3. International trade should lead to lower prices for goods and services because of the economies of scale and scope that will derive from a larger global base.
4. Differentiation occurs when companies are able to deliver benefits to the customer that exceed those of competitors.
5. Global manufacturing networks could not have been created without efficient and solid transportation and logistics services.
6. The international strategy employed to enter foreign markets should not match company's internal resource capabilities and the market characteristics of the target host countries.
7. Medical tourism can be broadly defined as the provision of 'cost-effective' private medical care in collaboration with the tourism industry for patients needing surgical and other forms of specialized treatment.
8. India is the world's largest sourcing destination for the information technology (IT) industry.

9. Marketing refers to the dissemination of information to the public about the products or services a business offers.
10. Being fair, honest and ethical is one the basic human needs.
11. An organization that is believed to be driven by moral values is respected in the society even by those who may have no information about the working and the businesses or an organization.
12. Vendor lock-in / Vendor lock-out- makes a customer dependent on a vendor for products and services, unable to use another vendor without substantial switching costs.
13. Viral marketing is an advertisement strategy concept designed for businesses to promote their products or services in an unconventional way with little budget to spend.
14. Subliminal advertising means any sensory stimuli below an individual's threshold for conscious perception.
15. Anti-competitive practices are business, government or religious practices that prevent or reduce competition in a market.

Ans: 1. True 2. False 3. True 4. True 5. True 6. False 7. True 8. True 9. True 10. True 11. True 12. True 13. False 14. True 15. True

Fill in the Blanks

1. _____ means the organization treats the world as largely one market and one source of supply with little local variation.
2. Oil companies expand in order to secure resources is called _____.
3. Clothing companies expand in order to take advantage of low labour costs in some countries is called _____.
4. Some companies acquire foreign companies to enhance their market position versus competitors is called _____.
5. Global economy has been changing at an unprecedented pace and _____ have been in the centre of this transformation.
6. For many developed countries services constitute over 70% of GDP, while for many developing countries this share increased to _____.
7. Transactional strategies are compromises between multi-domestic strategies and _____ strategies.
8. The extra cost savings that occur when higher volume production allows unit costs to be _____.
9. In domestic tourism, people travel outside their normal domicile to certain areas within the country as compared to travelling outside the boundaries of a country in _____ tourism.
10. _____ tourism, is a form of tourism that appeals to ecologically and socially conscious individuals.
11. The _____ industry is a broad category of fields within the service industry that includes lodging, event planning, theme parks, transportation, cruise line, and additional fields within the tourism industry.

12. Public-sector banks control nearly _____ of the market, thereby leaving comparatively much smaller shares for its private peers.
13. _____ is an area of applied ethics which deals with the moral principles behind the operation and regulation of marketing.
14. The rationale behind the _____ strategy is to generate long-term sales volume by reducing the time between repeat purchases.
15. _____ is business model that recruits members via a promise of payments or services for enrolling others into the scheme, rather than supplying investments or sale of products or services.

Ans: 1. Global strategy 2. resource seeking 3. efficiency seeking 4. strategic asset seeking 5. services 6. 50% 7. global 8. reduced 9. international 10. Ecological 11. Hospitality 12. 80 percent 13. Marketing ethics 14. Planned obsolescence 15. Pyramid Scheme.

Terminal Questions

1. Define International Strategy?
2. Distinguish between Multinational Strategy and Global Strategy?
3. Why is Global Strategy Important?
4. What do you mean by Hyper-competition?
5. Elaborate the role of Services in the Global Economy?
6. What is Transnational Marketing?
7. Discuss the market entry options to move from Domestic market to Transnational Market?
8. What are the factors favouring Transnational Strategy?
9. Discuss the characteristics of Tourism Industry?
10. What are the different types of Hotels?
11. What are the various classifications of Hospitals?
12. Discuss the 4 Segments of Indian Banking Operation?
13. Explain the 7Ps of Insurance Sector?
14. Write a note on India's Entertainment Industry?
15. What do we need ethical practices in Service Marketing?

