LOVELY PROFESSIONAL UNIVERSITY

SERVICES MARKETING

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SYLLABUS

Services Marketing

Objectives: The objective of this course is to acquaint the students to the uniqueness of the services characteristics and its marketing implications. The intent of the course is to discuss, measure and analyze several facets in the area of services marketing essential for the success of a service sector firm.

Sr. No.	Discription
1.	Introduction to Services Marketing, Understanding Service Characteristics, Product versus Services, Classification of Services, Services Marketing Environment.
2.	7Ps of Services Marketing Mix, Purchase Process for services.
3.	Customer Expectations and Perceptions of Services through Marketing Research, CRM in services.
4.	Service Quality issues and Models on Service Quality.
5.	The Service Segmentation, Targeting, Positioning a Service in the marketplace, Understanding Positioning Maps, Developing Service Blueprint.
6.	Service Product & Operation, Understanding Employees and Customers Role in Service Delivery
7.	Pricing of Services, Delivering Service through Intermediaries, distribution growth options, Internationalization in distribution
8.	Developing Integrated Communication Program, Designing Servicescapes
9.	Competitive Marketing Strategy, Developing Service Recovery Strategies, Managing Demand, Supply and Productivity, Managing waiting Lines,

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Unit 1: Introduction to Services Marketing

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Objectives

After studying this unit, you will be able to:

- Describe the concept of services marketing
- Define services
- Discuss the service characteristics
- Distinguish between products and services
- Classify services

Introduction

As India moves increasingly toward a services economy, marketers need to know more about marketing service products. On a simplistic note, one can say that services are activities or benefits that one party can offer to another that are essentially intangible and do not result in the ownership of anything. Thus we see how services are different from goods.

During the past decade services have increasingly assumed an important role in the Indian economy. Ever since this trend was set in the nineties, services have gained dominance. The competition, simultaneously, in service organisations, is becoming intense and severe. As a result these organisations have to have a more professional approach to managing their businesses. Perhaps it is in this context that the role of marketing is gaining importance in service organisations. In this unit, you will be introduced to the concept of services.

Notes

1.1 Defining Services

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

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

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

Lehtinen, in 1983, defined services as "an activity or a series of activities which take place in interactions with a contact person or a physical machine and which provides consumer satisfaction."

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

Gummesson highlighting the intangible nature of services defined "services as something which can be bought and sold but which you cannot drop on your foot." This definition also pointed out one basic characteristic that the services can be exchanged even though they are not tangible.

According to Gronross, "a service is an activity or series of activities of more or less intangible nature that normally, not necessarily, take place in interactions between the customer and service employees and/or physical resources or goods and/or system of the service provider, which are provided as solution to customer problems."

Caselet

Myths about Service Industries

There are certain myths about services sector. It is because of these myths that people are unable to relate the role and contribution of the services sector in the economy.

The first myth is that a service economy produces services at the expense of other sectors. The fact is that many service industries are major purchasers of manufactured goods. Take the example of airlines, fast food outlets, educational institutions, etc., which buy so much of manufactured products.

The second myth is that service production is primarily labour intensive. In fact, a number of service sectors like healthcare, hospitality, etc., are capital intensive. Productivity are therefore equally important in service organisations as returns on capital employed will be one of the major determinants of success.

The third myth about services is that people satisfy their product needs before the need for services. This is also not true. Research findings of a study revealed that people value services as much as products; however, they may buy services in a less cyclical way, as compared to goods.

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Notes

The fourth myth about the services sector is that service businesses are 'cottage industries' and service jobs are low paying. If you check the list of Fortune 500 companies you will be surprised to see the number of service companies figuring in this list.

The other myth about the service sector is that services are only offered by the government sector. The fact is that on the one hand public services, like telephones, health care, power generation and distribution, etc., are being privatised and on the other hand large enterprises are entering into services sector. Take the example of Escorts into health care, Tatas in power distribution, etc. In fact the service organisations are quite varied and different from each other.

First category includes the public agency sector for example post offices, police and fire departments, water and electricity authorities, etc. The second group is made up of the private non-profit sector running charities, foundations, old age homes or various societies involved in issues related to women, literacy, family welfare, etc. Next comes the business sector comprising banks, hotels, airlines, travel agencies, tour operators, courier services, insurance, consultancy – legal management or medical. Lastly, it is the sector which provides services to those involved in manufacturing. This includes those firms providing security personnel, accountants and auditors, computer operators and software consultants which help manufacturing firms in their operations.

In addition, there are a number of other types of services which are emerging in the western society. These range from, on a charge, the availability of a baby sitter to a group of hippies making the party colourful. In India also such services are emerging whether they are a troupe of young boys and girls doing a music-cum-dance show on a birthday or wedding, house maintenance services, real estate brokers, security, etc.

This definition takes into account the following important features of services:

- Services are by and large "activities" or they are series of activities rather than things.
- As a result services are intangible.
- They take place in the interaction between the customer and the service provider, which means that services are produced and consumed simultaneously.
- Customer has a role to play in the production process as the services are provided in response to the problems of customers as solution.

Self Assessment

State whether the following statements are true or false:

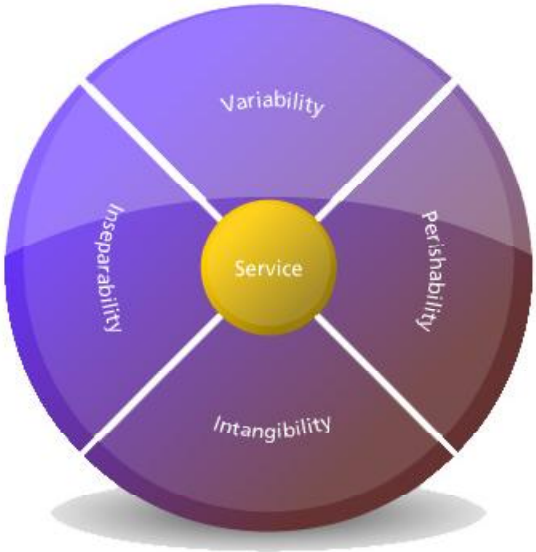
1. Services are offered only as complementary or in a package with sale of goods.
2. Services can be both tangible and intangible.
3. Customers play an important role in delivery of services.

1.2 Understanding Service Characteristics

As our knowledge of the characteristics of services grows, so does our ability to deal with them from both an economic and marketing perspective. Services are intangible, inseparable, variable, and perishable. Each characteristic poses problems and requires strategies to deal with those problems.

Notes

Figure 1.1: Service Characteristics



Source: http://nceffacilityops.com/wpimages/wp9108a739.jpg

Intangibility means that unlike goods, services can't be seen, touched and felt, tasted or smelled or even heard before they are purchased.

Inseparability suggests that services are produced, distributed, and consumed simultaneously. In the case of manufactured goods, production takes place in the production unit; thereafter the goods are kept in inventory and transported to the distribution outlet from where the consumers pick them up for consumption.

Heterogeneity means that services delivered generally vary in quality, time consumed in delivery, and the extent of service provided. Since people deliver most services, they are variable.

Perishibility means that services can't be stored.

Example: For Airlines, in a particular flight, vacant seats remain unsold, whereas in the case of manufactured goods, unsold items can be put into inventory and can be sold the next day.

Marketers have to find ways to 'tangibalise' the 'intangible' to increase the productivity of providers who are inseparable from the product; to standardise the quality in the face of variability; and to influence demand movements and supply capacities better in the face of service perishibility.

Services are relatively intangible, produced and consumed simultaneously and often less standardised than goods. These unique characteristics of services have specific marketing implications and accordingly service marketer must adopt appropriate marketing strategies. Although service industries are quite heterogeneous (ranging from beauty salons to utilities), Berry identified some significant characteristics of services, which are shown in the following table:

Notes

Table 1.1: Characteristics of Services

Service Characteristics	Marketing Implications	Strategies
Intangibility	Cannot be stored	Tangible clues
	No patents	Personal sources
	No ready display	WOM
	Communication problem	Organisational image
	Pricing difficulties	Cost accounting for prices
		Post purchase comm.
Inseparability	Consumer involved in production	Selection and training of contact person
	No mass production	Manage consumer
	Supply demand match	Multi-site location
Heterogeneity	Standardisation difficult	Industrialise
	Quality control difficult	Customise
Perishability	No inventorisation	Cope with fluctuating demand
		Better match through process

1.2.1 More Intangible than Tangible

A good is an object, a device, a thing. A service is a deed, a performance, an effort. When a good is purchased, something tangible is acquired; something that can be seen, touched, perhaps smelled or worn. When a service is purchased, there is generally nothing tangible to show for it. Services are consumed but not possessed, therefore the absence of tangible features means that it is difficult for the seller to demonstrate or display services and for buyers to sample, test, or make a thorough evaluation. To reduce uncertainty, buyers look for signs or evidence of service quality. Therefore, the service provider's task, according to Levitt, is to "manage the evidence" and to "tangibalise the intangible". Shostack even summarised that most market offerings are a combination of tangible and intangible elements. It is whether the essence of what is being bought is tangible or intangible that determines its classification as a good or a service.

Task Mention any five services that have significant tangible elements attached to them and five goods that have service element attached to them.

1.2.2 Simultaneous Production and Consumption

Services are typically produced and consumed at the same time. The relationship between production and consumption therefore dictates that production and marketing are highly integrated processes.

Example: The telephone company produces telephone service while the telephone user consumes it.

Notes

Generally, goods are produced, then sold, and then consumed. Services, on the other hand, are usually sold first, then produced and consumed simultaneously.

The service provider and the client are often physically present when consumption takes place. Sasser observed that the firm is unable to store or transport services that only direct distribution is possible, thereby potentially limiting the number of markets the firm can cover. Apart from the stress laid on 'right place' and 'right time' in case of distributing goods, there is additional importance given to the performance of service in the 'right way' as well.

1.2.3 Less Standardised and Uniform

It is argued that it is often impossible to assure consistency in the services provided by a seller or to standardise offerings among sellers of the same service, while it is possible to offer consistency and uniformity of products. Levitt argues that such a distinction has limited value because it is a production oriented approach as even an identical generic product will be differentiated when it is viewed as offered product for sale. Thus, while the core product may be uniform, the process will always be differentiated.

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

1.2.4 Perishability

Kurtz and Boone observed that the utility of most services is short-lived; therefore they cannot be produced ahead of time and stored for periods of peak demand. The perishability of services is not a problem when demand is steady because it is easy to staff for the services in advance. When there are wide fluctuations in demand there should be a highly flexible production system or idle productive capacity.

Sasser has described several strategies for producing a better match between demand and supply in a service business. On the demand side, the firm can make use of differential pricing, cultivating non-peak demand and developing complementary services. On the supply side, for effective matching with demand, the firm may hire part-time employees to serve peak demand; peak-time efficiency routines can be introduced, facilities for future expansion can be developed, and increased consumer participation can be encouraged.

Self Assessment

Match the following sets:

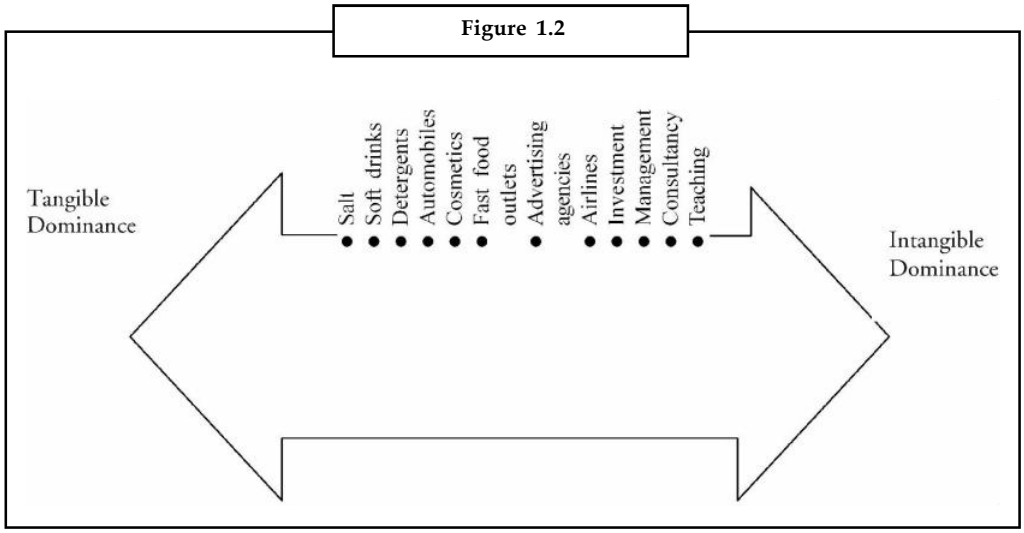
Set A		Set B	
4.	Services cannot be stored	a.	Intangibility
5.	Services cannot be patented	b.	Inseparability
6.	Difficulty in quality control of services	c.	Heterogeneity
7.	No mass production of services	d.	Perishability

1.3 Product vs. Services

Notes

Levitt has suggested, "There are no such things as service industries. There are only service industries whose service components are greater or less than those of other industries. Everybody is in service." The point that Levitt was trying to put across is that with almost every tangible core physical product, an intangible service component is associated. Therefore, everybody is in service.

Figure 1.2



It was as early as 1977 when Ms G Lynn Shostack, the Vice- President of Citibank, suggested that marketing 'entities' are combinations of intangible and tangible elements that are distinct and discrete. If these absolute tangible and intangible elements are taken to the two ends of a continuum, we can observe that all goods and services don't fall at one place. There is a range that varies from absolute tangible goods like salt to an absolute intangible service like education.

Task Prepare a tangibility spectrum and product-service continuum including services other than those given in this section.

Theodore Levitt proposed the other approach of distinction between various goods. According to him, goods can be put into two categories, namely, search goods and experienced goods. Search goods are generally those goods which are packaged goods and the customer can see, evaluate and try them prior to purchase.

Example: Car, shampoo, etc.

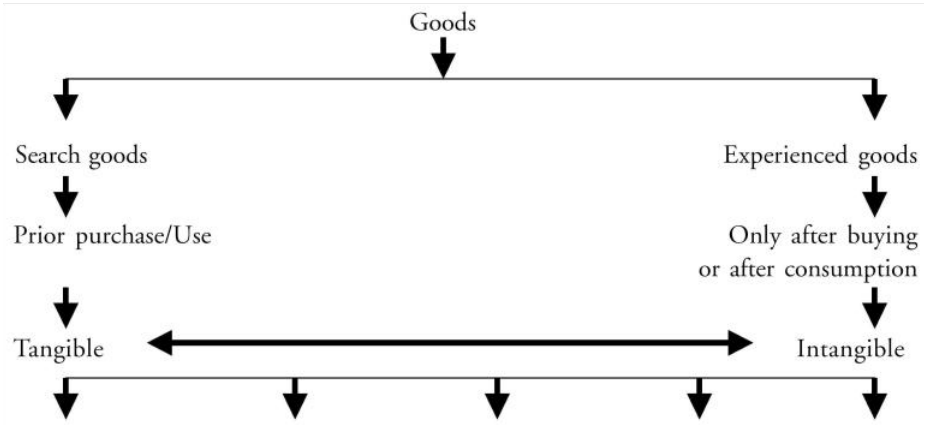
Experience goods, on the other hand, are those which one can see or evaluate after purchase.

Example: Holidays, teaching, etc.

Some persons call search goods as tangible goods and the others as intangibles. There is a range between the two extremes and there could be certain products falling in this range, as explained in Figure 1.3.

Notes

Figure 1.3



Philip Kotler has further expanded and clarified the point of view of Levitt and suggests four categories in which product-service relationship can be categorised.

Table 1.2

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

First, it is the pure tangible good which is like a commodity where it's rather difficult to distinguish between the goods supplied by two suppliers and these goods look identical. There is absolutely no service or intangibles associated with either of the goods.

Second, it is the tangible good with accompanying service. In this case the offer consists of a tangible good with service(s) associated with it. Here an effort is made to distinguish the product from competing products based on service.

Example: Consider two brands of refrigerators – one with a five-year guarantee while the other with a seven-year guarantee; based on the guarantee the manufacturer is trying to differentiate the product.

Third, it is a major service with accompanying minor goods or service. In this case the manufacturer or supplier is primarily offering a service to the market and along with it minor goods or services may or may not be associated.

Notes

Example: An airline is primarily offering the passenger transportation service. However airlines also offer food and entertainment on board.

The primary item, in this case, still remains transportation and food, entertainment, etc., remain secondary. Lastly, it is the pure service where the offer is only a service.

Example: Telecommunication, psychotherapy, health club, etc.

Self Assessment

Fill in the blanks:

8. Teaching is a ..... service.
9. Bathing soap is a pure tangible .....
10. Clothes come under the category of ..... goods.
11. Manicure and Pedicure are types of ..... goods.

1.4 Classification of Services

Ever since marketing researchers started defining services, they also proposed their classification. The first one was proposed as early as 1964 and the last, as late as 1989. Summary of these classifications has been given in Tables 1.3.

Table 1.3

Author	Proposed Classification	Comment
Judd (1964)	1. Rented goods services (right to own and use a good for a defined time period) 2. Owned goods service (custom creation, repair or improvement of goods owned by the customer) 3. Non-goods services (personal, experience or "experiential possession")	First two are (1964) fairly specific but third category is very broad and ignores services such as insurance, banking, legal advice and accounting.
Rathmell (1974)	1. Type of seller 2. Type of buyer 3. Buying motives 4. Buying practice 5. Degree of regulation	No specific application to services could apply equally well to goods.
Shostack* (1977) Sasser et al.* (1978)	Proportion of physical goods and intangible services contained within each product "package"	Offers opportunities for multi-attribute modelling. Emphasises that there are few pure goods or pure services.
Hill (1977)	1. Services affecting persons vs. those affecting goods 2. Permanent vs. temporary effects of the service 3. Reversibility vs. non-reversibility of these effects 4. Physical effects vs. mental effects 5. Individual vs. collective services	Emphasises nature of service benefits and (in 5) variations in the service delivery/consumption environment.

Contd...

Notes

Thomas (1978)	1. Primarily equipment based a. automated (e.g., car wash) b. monitored by unskilled operators (e.g., movie theatre) c. operated by skilled personnel (e.g., airline)	Although operational rather than marketing in orientation, provides a useful way of understanding product attributes.
Chase (1978)	Primarily people-based a. 'unskilled labour (e.g., lawn care) b. skilled labour (e.g., repair work) c. professional staff (e.g., lawyers, dentists)	Recognises that product variability is harder to control in high contact services because customers exert more influence on timing of demand and service features due to their greater involvement in the service process.
Kotler (1980)	Extent of customer contact required in service delivery a. high contact (e.g., health care, hotels, restaurants) b. low contact (e.g., postal service, wholesaling)	Synthesises previous work, recognises differences in purpose of service organisation.
Lovelock (1980)	1. People based vs. equipment-based 2. Extent to which client's presence necessary 3. Meets personal needs vs. business needs 4. Public vs. private, for-profit vs. non-profit 5. Basic demand characteristics - object served (persons vs. property) - extent of demand/supply - discrete vs. continuous relationships between customers and providers 6. Service content and benefits - extent of physical goods content - extent of personal service content - single service vs. bundle of services - timing and duration of benefits	Synthesises previous classification and adds several new schemes. Proposes several categories within each classification. Concludes that defining object served is most fundamental classification scheme. Suggests that valuable marketing insights would come from combining two or more classification schemes in a matrix.

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

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

Notes

Case Study

Lakme Beauty Salon* – Extending Into Service Brand

The *Lakme Beauty Salon* (LBS) was inspired by Lakme, the brand that has for 50 years now led the way in truly understanding the Indian woman. It is the classic example of an exercise in extending a product brand to a service brand.[1] It seems not to have escaped the usual pangs of extensions, although it has clearly sought to exploit definite market opportunities. *Lever* had tasted success in its previous brand extension exercises: *Rexona*, *Lux* and *Liril* soaps to deodorants, with Rexona particularly performing exceptionally, capturing almost 70% of the organized market share (it has, by 2004, dropped to 50%). But this brand extension was different: the product offer (*Lakme* cosmetics and skin cares) of the mother brand possessed more tangible features than the extended service offer (LBS), which mostly promised experience.

Simone Tata, wife of the late Naval Tata, had promoted Lakme, a distinctive jewel from the House of Tatas. But as a perceived misfit to the new strategic blueprint for the group drawn by Ratan Tata, the Chairman of Tata Sons (the holding company), in the mid nineties, the cosmetic major was sold off to the FMCG major Hindustan Lever Limited (HLL)[2].

HLL turned over a 'new leaf' in 2001 when it set up LBS under its beauty brand, Lakmé. The idea was to offer a complete brand experience[3]. Three years later, LBS contribute 11 per cent to the company's turnover, but only one per cent of Lakmé product sales are through LBS outlets. LBS have not been a major success, since its branded service was often as uneven as the local beauty parlour. *But, can the effort be called a failure*?

Performance: Lakme Lever has 50 per cent share in cosmetics market and 22 per cent in skin care, aiming to have a larger pie of the ₹ 1,000 crore salon industries, which is growing at 20 per cent. With 150 salons, LBS would also enter relatively small towns, while adding new salons in metros like Delhi, Mumbai, Bangalore and Chennai.

Lakme & Beauty Industry Performance

The Indian cosmetics industry is in a state of flux. Even as the premium segment is getting crowded, the rural market is turning out to be the stronghold of smaller, regional players. Although stiff competition has emerged for Lakme Lever within the ₹ 250-crore colour cosmetics market, it continues to lead. In the skincare market, estimated at ₹ 700 crore, Lakme's market share averages 7-8 per cent. (2003). Lakme Lever, which saw a 32 per cent growth in 2003-04, plans to concentrate on growing the salon business through its LBS, while consolidating its core business of colour cosmetics and skin care.

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1 The name Lakme has a very romantic origin, partly credited to the French origin of Simone Tata. In the Twenties and the Thirties there was a very well known cabaret dancer in Paris of Indian origin, called Lakme. Her real name was Lakshmi; the rest is inspiration.

2 The sell off by the Tatas as a redefinition of their business was preceded by other sell offs: Tata Oil Mills Company Limited (TOMCO) to HLL; the liquor division of Forbes, Forbes & Campbell to Vijay Mallya's UB Group etc. Simone Tata used the corpus from the sell-off to start their retail venture through Tata Retail Enterprise (TRENT): the Westside chain.

3 It was to be the beginning of a series of steps by the household goods major to step into services.

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Notes

Lakme's other Ventures

Lakme has had a mixed bag of success whenever it made forays into areas other than its core cosmetics and skin care segments:

Fragrances

Lakme had two fragrance brands, *Ivana* and *Shie*, which they withdrew some years ago. The fragrances market in India is too fragmented and has always had a strong presence of brands smuggled into the country and brought in through the grey market. Other Lever brands (as distinct from *Lakme's*) like Rexona and *Lux* have had more success in their extension exercises in deodorants. *Rexona*, in the early nineties, was more successful in the deo-stick segment and then in the deo-spray. *Lux* soon followed suit and, combined, have over 50 per cent of the deodorant market sewed up.

Lakme has no immediate plans to stage a re-entry in the fragrances sector in the immediate future under brand *Lakme*. The macro strategy is on rationalizing the skincare and colour cosmetics portfolio.

Hair Care

HLL has several brands in the hair care segment. So there are no plans to extend the *Lakme* brand to hair care products such as shampoos and oils. The core thrust areas remain colour cosmetics and skin care.

Co-branding: By 2002, *Taj Group of Hotels* and *Lakme Lever* had joined hands for beauty salons. The salons were to be managed by the *Taj while Lakme* would be in charge of sourcing equipment, experts and training the staff. As a case study for co-branding, the two had initially tied up to open unisex *Lakme salons* in the hotel chain's business and leisure properties across the country. A beginning was made by opening two such salons in *Taj Connemara*, Chennai, and *Taj Blue Diamond*, Pune, with planned expansion of up to 11 such salons at its various properties by the end of 2002. In an interview to Business Line, Mr Tarun Mehra, GM - Salons, *Taj Group of Hotels*, had said that the partnership for salon management would," not only enable us to get expertise from *Lakme*, but will also help us to get the right kind of inputs to make our salon business a success".

This tie-up with *Lakme Lever* included setting up of Lakme salons in all those properties that did not have beauty salons - as well as conversion of the existing salons into Lakme Salons. "We are trying to standardise the quality of Taj's salon service across all our properties through this tie-up," remarked Mr Mehra. "We believe that Lakme Lever's Beauty Salon has the required expertise to add value to our chain of salon operations," he added.

Win-win/synergy: LBS gets the right positioning for its service through the association, while Taj gets to offer, a la Total Product Concept, a high value component to its offer, enhancing its competitive advantage. The pricing at these salons would be at a higher mark-up compared to other *Lakme Beauty Salons*. Also in the offing were value packages for the services available in these salons and the introduction of a loyalty programme.

Offer: *Lakme Beauty Salon* is striving to offer that extra something which one expects in every aspect of beauty care services, which includes facials, manicures, pedicures, makeup, hairdressing, colouring and grooming. They wait on their customers 'hand and foot' to make them look gorgeous, feel divine, gently letting them discovers the whole new aspect for themselves. LBS offer the following services:

- Bridal service
- Hair care

Contd...

Notes

- Mehendi
- Beauty
- Lakme products
- Skin care

Open seven days a week from 11 a.m. to 8 p.m. the *Lakme Beauty Salon* has been positioned as "gateway to a fuller, more beautiful you".

Expansion plans: By 2005, Lakme has plans to open 150 beauty salons to consolidate its position in the ₹ 1,000 crore (₹ 10 billion) salon market of which a mere ₹ 170 crore comes from the branded segment. The intent is to further increase market share in both categories (cosmetics and skin care). With 60 Lakme Beauty Salons spread across 22 cities, the target for end-2004 was to open 30-40 more salons in eight more cities.

The salon business today contributes to 15 per cent of revenues from the *Lakme* brand and is expected to go up to 30 per cent over the next three years. The LBS brand is relatively absent in the east, which was due to the recently adopted franchisee model: it got built around the four original salons at Mumbai, Chennai, Delhi and Bangalore. Entry into Calcutta was made in the beginning of 2005. LBS expected to grow at a rate higher than the industry average of 13 per cent.

Education: Lakme stuck to its plans to start beauty treatment and hair styling courses in 2004 through the *Lakme Beauty Academy* in Mumbai, Chennai and New Delhi. The mission of the training Academy was to provide people with skills required in the beauty business. The courses include basic training and up gradation skills for professionals costing between ₹ 5,000 to ₹ 15,000. LBS have a requirement for at least 400 people to manage their expansion plans. There was a dearth of skilled manpower, which the Academy sought to fill. There are also plans to take the Academy to major metros. "Beauticians trained by the academy will get absorbed both in *Lakme Beauty Salons* and in the industry in general," a Lever spokesman says, explaining: "The future growth of the industry will require more trained beauticians."

Business generation: *Lakme Beauty Salons* have a fairly vast spread presence across SEC A and B cities: Delhi, Chandigarh, Jalandhar, Ludhiana and Amritsar in the North; Mumbai, Goa and Aurangabad in the West; and in the South, in Bangalore, Chennai, Mysore, Managalore and Coimbatore. Lakme was the first corporate house to enter the salon business in the country. The concept of salons has been to a great extent redefined since Lakme Beauty Salons were introduced.

Promotions, in-store activities: LBS have striven to make its in-store promotions innovative and personality-driven:

- Special tips and advice by India's ace make-up artist Cory Walia.
- Basing the noted hair trichologist Dr. Rita Khatwani at *Lakme Beauty Salon*, Churchgate, to make her available for consultancies.
- Workshops with hair expert Samantha Kochhar introducing the look of the year at the *Lakme Beauty Salon*, in New Delhi, along with Lakme Image Consultant Malvika Tiwari and Sunsilk Hair. The workshop was a part of the promotion that leading shampoo brands Sunsilk, Clinic Plus and Clinic All Clear have initiated across the country where the consumers can avail of professional hair advice at an affordable price.

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- Expert Samantha Kochhar briefing media on the Winter Look of 2003 at the *Lakme Beauty Salon*, New Delhi.

Industry Opportunity & Competition Analysis

Baccarose, the company that distributes and markets premium lifestyle brands like *Elizabeth Arden, Escade, Nina Ricci* and *Siedo*, is planning to open Clarins beauty studios in Bangalore, Delhi and Chennai over the next two years. At present, it has only one studio in Mumbai. Meanwhile, several companies that run beauty salons are setting up training institutes, competing head on with *Lakme* in another area. *L'Oreal Professional*, a division of *L'Oreal*, has invested in four technical centres (in Mumbai, Delhi, Kolkata and Bangalore). *Schwarzkopf Professional*, a division of Henkel Spic, has a training academy in Delhi. According to Shekhar Sethu, general manager at *Schwarzkopf Professional*: "Technical and service standards have been improving rapidly with companies investing in technical education."

Salon Business & Growth: If the big boys are expanding, it's because business is growing at impressive rates. Lakme's beauty salons in Mumbai clocked 28 per cent growth in revenue, 21 per cent growth in Chennai and a hefty 60 per cent or so growth rate in Bangalore. The Marico Industries-promoted *Kaya Skin Clinic* (which the company says is a skin treatment business) started in the third quarter of 2002-2003, but now has over 10 clinics in India and abroad. *Kaya's* turnover crossed ₹ 1 crore (₹ 10 million) during the third quarter of 2003-2004. The clinics have started breaking even.

Product offtake: Furthermore, companies like *Henkel*, *L'Oreal* and *Wella*, the German hair care company, are seeing the off take of their products from beauty salons climb. According to industry sources, the salons generate over ₹ 200 crore (₹ 2 billion) in product sales. The statistics tell a fuller story. According to ValueNotes Database, the Pune-based research firm, India has over 61,000 beauty salons in towns that have a population of over one million. It is difficult to estimate the beauty salon industry's estimated turnover, which is anywhere between ₹ 1500-2,000 crore (₹ 15-20 billion), with the metros accounting for about 60 per cent of this. The large beauty salons take up over 27 per cent of the revenue in the towns.

Consumer behaviour: So why is the beauty salon business booming? Explains Dipali Prasad, brand manager, retail, House of Baccarose: "As 'feel good' is becoming very important in today's high stress urban environment, beauty treatments at salons, gyms, massages, the spa experience and so on have become a part of people's lifestyles. Owing to the increasing demand the salon segment is experiencing a high growth rate. Salons are coming out of their 5-star environment and making an appearance in stand-alone formats."

The business itself is rapidly changing. A few years ago, beauty salons used to offer regular services (waxing, threading, bleaching, facials). Now they offer specialized services like visible radiance lightening facials, intense glow facials, skin toning facials, hair reviving, hair revitalizing and scalp conditioning programmes, among other things.

Strikingly too, men are flocking to beauty salons in ever increasing numbers. Says Vismay Sharma, director, L'Oreal Professional India: "Men are getting more and more enthusiastic about beauty services. Business in men's' salons is growing slightly faster than in women's salons as men are getting more conscious about their looks." Adds Prasad: "Men comprise 25-30 per cent of the customers at the *Clarins beauty studios*."

Sums up a consultant at *Jacques Dessang*, the Paris-based unisex beauty salon that fashion house *Ravissant* introduced into India and which has a presence at Mumbai's Taj Mahal Hotel: "The image of the beauty salon has changed. It is now known for its infrastructure, ambience and service. Consumers today are willing to pay much more for a better experience." No doubt, HLL and Baccarose will bear testimony to that.

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Marketing strategies: The newest stalls in 10 branches of Shopper's Stops around the country are temporary salons being set up by top-selling shampoo Sunsilk, a product of *Lakme Lever*. Hair stylists like Jawed Habib demonstrate their skills. The aim: to boost awareness in the run-up to the Miss World pageant where Sunsilk was the official sponsor of the beauty show.

Hindustan Lever, which makes Sunsilk, insists that the salons are only a temporary affair but it believes they can give tremendous publicity mileage. And it is only following in the footsteps of other fast moving consumer goods companies – like CavinKare, *L'Oreal, Marico and Wella* – which are opening exclusive salons and clinics in a bid to reach out to end users.

Lakme has had four salons for the past 25 years. In the last 18 months it had gone into overdrive and opened 42 outlets in different parts of the country. And there is no stopping – it plans 200 salons by the next two years.

Why are corporate houses on a beauty binge? For years now, companies which had a range of personal care products have been hard-selling their products to hairdressers and beauty salons. Now, some are looking at forward integration and getting into the beauty business themselves. Arvind Mahajan, partner at IBM Business Consulting Services says, "A lot of value is shifting to services. In that context, it helps them maintain a relationship with customers and capture value downstream." Adds Harsh Mariwala, chairman and managing director of the ₹ 696-crore Marico Industries: "It is one way of going up the value chain."

So let's look at the industry makeover that is taking place. In August, for the first time since French cosmetic major L'Oreal entered India a decade ago, it has collaborated with entrepreneurs to set up an upscale salon – HFX (Hair effects). New business opportunities for Marico imply setting up *Kaya* skincare clinics, currently being test-marketed in Mumbai. *CavinKare* has a range of salons targeting different wallet sizes. And Wella began this year tying up with 30 outlets that have been rebranded as Esteem parlours. Similarly, Godrej Consumer Products, which makes ColourSoft hair colours, has toyed with the idea of sprucing up in salons. It seems to have abandoned these plans for the moment.

These ambitions are also driven by the fact that tough economic conditions have put profitability under pressure for many companies. And the growth potential in the service industry is tremendous. Even though there are no audited numbers, players peg the salon business at around ₹ 800 crore (₹ 8 billion) and say that it is growing at 25 per cent. What's more, it is largely unorganized. But with brand awareness and higher purchasing power, corporates hope to change the complexion of the game.

The fatal attraction: Just look at the margins in the business. "It is like drinking coffee at home and having it at Barista," says D Shivakumar, business head, Hair care at HLL. While margins in the traditional FMCG business hover in the 8 per cent to 15 per cent band for most companies, the sky is the limit for salons. For instance, a box of good hair colour retails at around ₹ 350. Go in for a cut, wash and colouring and you shell out anything from ₹ 1,500 to ₹ 3,000. "It's all in the nature of services offered," says a marketer.

Also, consumer brand loyalty, say companies, is much more for services than products. In an age, where brands of all hues are fighting for shelf space, affiliated salons become an ideal channel to route your products through. That's why *Lakme* is trying to make its presence heavily felt in the marketplace. "There are points of time when consumer habits and lifestyles are changing, so you look at opportunities to grow your existing business," says Anil Chopra, managing director of Lakme Lever.

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So while *Lakme salons* not only stock a range of products that go under its brand name, it also showcases part of the HLL portfolio. In fact, it is this lifestyle change and the need to 'look good,' that has motivated Chennai-based CavinKare to set up a group company – *Trends in Vogue*. The company is opening three separate chains, catering to assorted wallet sizes that are all targeted at 20 to 35 years old. At the lower end is Fyne Cut, a budget salon for men. Positioned as an 'amazing value for money' offering, it competes with the friendly neighbourhood barber.

Green Trends will have a range of men's and women's salons aimed at the middle class. The recently launched *Limelite* is the premium brand targeting upper crust men, women and kids. To ensure that it offers 'an international standard beauty care', *CavinKare* has tied up with German hair major Wella of Germany and Beaubelle of Switzerland.

Says Sanjay Gupta, general manager, *Trends in Vogue*, "We realized that there was a need gap in the grooming industry. We use various brands of products at these salons, including those that do not belong to us. The objective is to give the consumer a service suitable for him. "That's why even HLL is bonding with consumers through the Sunsilk salons." The objective is to build the event and the association of giving customized answers to Sunsilk users. Consumers are moving from product to experience," says HLL's Shivakumar.

He denies that his company is making yet another attempt to bond with consumers, but industry experts say that HLL would never invest in anything that didn't have a long term potential. So to woo customers, on offer are free haircuts and beauty treatments by Habib and beauty specialist Samantha Kochhar. *Marico's Kaya* trip is more an attempt to lessen its reliance on cash cows Saffola and Parachute. Over the years, the brands, which have gained market share, have also been milked dry with various extensions, many of which have failed.

In fact, unlike other players where the service foray has synergies with their brand portfolio, *Kaya* is absolutely out of sync with Marico's platter. For *Wella*, it has been a year of 'reinventing the wheel' according to Sebastian Zachariah, head, creatives and communication at *European Haircosmetics*, the wholly owned subsidiary of Wella AG. After calling off its two-year-old marketing tie-up with J L Morrison of *Nivea fame* in February, 2003, it is looking at the salon business with enthusiasm.

Wella, which has no retail division and sells only through the parlour route, has plans to open 150 salons by this fiscal end. "We have to evolve given the scenario. That's the only way to penetrate the market," says Zachariah. "For us, it is a perfect extension," says Vismay Sharma, general manager, professional products division at L'Oreal. Having tied up with parlours three years ago to call them Prestige outlets, its recent foray into HFX is a completely new initiative. "Salons as a channel are by far the most interesting," he adds.

All the players echo similar views. But it could be slightly unfamiliar territory. But for LBS, its strength might be that it was in the beauty business for over a quarter of a century, tracking the aspiring Indian woman; its weakness could be that it was foraying into experience and services which were intangible and difficult to measure for quality and for maintaining consistency.

Questions

1. What advantages did Lakme Beauty Salons start with and what were its inherent drawbacks?
2. Analyze the beauty industry completely, its opportunities and competition.
3. Enumerate the different rationale for Lever to extend its product brand to services.

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4. How can LBS overcome the inherent drawbacks and disadvantages from its offer characteristics?
5. "HLL turned over a 'new leaf'". Explain the significance and irony of the statement with regard to brand HLL.

Source: ORG-MARG sales audit report

Note: This case has been prepared from various news reports and analysis of the cosmetic and beauty industry, appearing in Business Line, the financial daily from The Hindu group of publications etc. Contributors of reports are: Reeba Zachariah, Nandini Lakshman and Sanjay Pillai, Shweta Jain, Ratna Bhushan, Ajita Shashidhar. The news reports stretch from July 02, 2002 to November 02, 2004.

Self Assessment

State whether the following statements are true or false:

12. Courier services are low contact services.
13. Teaching is a high contact service.
14. Hair cutting service is provided by unskilled personnel.
15. Fast food restaurant services are high on extent of physical goods content.

1.5 Summary

- Services have become an integral part of any economy's infrastructure and have become indispensable to urban life.
- Services marketing is marketing based on relationship and value. It may be used to market a service or a product. Marketing a service-base business is different from marketing a product-base business.
- There are four special characteristics of services: intangibility, perishibility, variability and inseparability.
- A customer cannot see, touch, or feel the service product. There is also no scope for the customer to make impulse purchase decisions as triggered by visual images and the touch-and-feel factor – which are not any way possible in intangible service offers.
- These are the ways in which intangibility can be overcome: Visualization, Association, Physical Representation and Documentation.
- The perishibility factor prevents a service marketer from storing his offers. This robs him of the privilege of delayed sales. The service marketer suffers from lost opportunities. Methods to overcome perishibility are: over-marketing, managing demand and managing supply.
- Variability conveys to the customer an element of inconsistency and non- standardization in the service offer and service delivery. The customer's service encounters are different every time. This can be overcome by training of internal customers, proper recruitment and selection of other customers, training of external customers and automation.
- Services can be differentiated from products based on factors such as the nature of the product, customer involvement in the production process, people as part of the product, quality control problems, difficulty in evaluation, absence of inventories, importance of the time factor, and nature of distribution channels.

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- Services can be classified by: end-users, degree of tangibility, people, expertise, and orientation towards profits.
- In end users classification, there can 3 types of end users namely: individual consumers, business to business end users and industrial end users.
- Services can also be separated as high contact services that involve higher degree of contact from the customers like financial services and low contact services like ATM.

1.6 Keywords

Experience Goods: Goods (services) that need to be experienced before you can evaluate them.

High Contact Services: Service providers have high degree of contact with the customers.

Low Contact Services: Services characterized by very low contact with people.

Perishibility: It refers to the fact that (in general) services cannot be produced and stockpiled (inventoried) before consumption.

Search Good: A Product with features and characteristics easily evaluated before purchase.

Service: A Type of economic activity that is intangible, is not stored and does not result in ownership.

***Service Marketing*:** Marketing based on simple relationship and value.

1.7 Review Questions

1. "Services are now an integral part of any economy's infrastructure and have become indispensable to urban life." Substantiate with suitable examples.
2. Suppose you are the marketing head of a chain of discothèques. What measures will you take to add an element of tangibility to your service?
3. "The customer's service encounters are different every time". Comment
4. Suggest ways to overcome the problem of standardization in a multi-cuisine restaurant.
5. Compare and Contrast service and product marketing. Give examples.
6. Market has variety of offers ranging from pure goods to pure services. In light of this statement explain the product-service continuum.
7. Do you think that classification of services can help in developing the marketing strategy better? How?
8. With tangibility and intangibility on either ends of a continuum, can you identify services which can be classified along this continuum? Select one of those services used by you as an individual, as family and as an organisation.
9. On a product-service continuum place the following items: automobile, fast food meal, pizza delivery, auto repair, advertising agency, computer, counselling and installed carpeting.
10. In which category would you put the following services? Give reasons also:
    a. A day care centre
    b. Chartered bus service

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c. Tele-shopping

d. Repair and maintenance services

Answers: Self Assessment

1.	False	2.	False
3.	True	4.	d
5.	a	6.	c
7.	b	8.	Pure intangible
9.	Good	10.	Search
11.	Experience	12.	True
13.	True	14.	False
15.	True		

1.8 Further Readings

Books

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US

Leonard L Berry, *Great Service: A Framework for Action*, The Free Press

Ravi Shanker, *Services Marketing*, Excel Books, New Delhi

Valarie A Zeithmal and Mary JO Bitner, *Services Marketing: Integrating Customer Focus across the Firm*, Tata McGraw Hill, New Delhi

Online links

www.marketingteacher.com/.../lesson_services_marketing

www.online-pr.com/Holding/ServiceMarketingSecret

http://dis.shef.ac.uk/sheila/marketing/services.htm

http://www.mba-tutorials.com/marketing/165-products-vs-services.html

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Unit 2: Service Marketing Environment

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Objectives

After studying this unit, you will be able to:

- Analyse the external factors that affect service marketing
- Identify the internal factors that affect service marketing
- Describe Porter's Five Forces Model
- Discuss the scenario building approach of scanning the service marketing environment

Introduction

It would be appropriate to take a look at the different environment factors that have affected the service-sector growth in India - positively as well as negatively. In this unit, you shall take a look at how, if differently, services were affected abroad by the environmental factors. This unit will also suggest you templates for making environmental assessments. There are two types of environment in which a service firm works:

- The ***general*** or ***external*** or ***macro***-environment.
- The ***task*** or ***internal*** or ***micro***-environment.

The general environment factors are those that affect all service firms. They are external to a service firm, and it can neither control nor influence them. In the end, all that an alert service marketer can do is to read the changes and developments in the environmental factors, understand

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the implications for his firm, adapt himself and allow for them in his strategy. Task environmental factors are internal to the organization and affect the individual service firm directly. The firm can control and influence its task environment factors for decisive competitive advantage.

2.1 The General or External or Macro Environment

The external or the macro environment of a service firm consists of the following SLEPT factors:

- Socio-Cultural factors
- Legal factors
- Economic factors
- Political factors
- Technological factors

2.1.1 Socio-Cultural Factors

This is a combination of social and cultural factors that are greatly affecting the service firms.

Consumption

From the late eighties, there has been an increase in conspicuous consumption and cultural norms have changed ever so imperceptibly. Today, consuming on credit is not seen as being all that strange or shameful. The Indian middle-class now recognizes such marketing mix initiatives as 'EMI', 'Exchange old for the new', etc. Credit card firms have taken great advantage of changed socio-cultural factors. A consumer is not reticent in flashing his wallet packed with colourful credit and charge cards.

Time, in 1989, chronicled the conspicuous consumption of the middle class in a cover story 'Consumer Boomers'. The apt sobriquet talked of the not-so-quiet consuming class (then estimated to be 200 million, but now after fourteen years, almost 300 million) bent on acquiring, spending and living it up. To quote the article: "In India, social position used to be equated with an English education and a job in the Indian Administrative Service. Today, it is money that increasingly defines status, giving rise to a middle class that cuts across caste and region." The rush to acquire has affected such sensitive traditions as arranged marriages and has allowed middle-class women to emerge in the workforce. It is no longer regarded as shameful to covet the good life and to seek an even better life for one's children. "Indians always accepted drudgery as what life had in store for them," says Mohammed Khan, chairman of Enterprise Advertising in Bombay. "Today, self-gratification is no longer a dirty word."

That was 1989. Bombay has been rechristened Mumbai and the social change has become universal and irreversible. Frenetic consumption has fuelled a boom in consumer finance, which saw a horde of Non-Banking Finance Companies (NBFC) storming onto the scene.

Did u know? The consumer big bang was detonated in 1982 with the advent of colour TV, but really took off in 1984 when Doordarshan, the monopoly state television company, began allowing advertisers to sponsor shows. Over the next five years, the advertising revenues at Doordarshan jumped more than tenfold. Top-rated shows exposed tens of millions of slum dwellers and villagers, as well as civil servants and professionals, to the blandishments of housewives, models and children. A surge in foreign travel and the arrival of the video revolution further whetted appetites for consumer goods. Consumers

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not only got exposed to international brands but also had support marketing mixes like finance, exchanges (or buy backs), add-ons, etc., to whet their appetite.

The rush to buy is rooted in the new middle class's love of ostentation. Many Indians consider those Punjabis who are most at home in Delhi to be particularly brash entrepreneurs and deride the type as the "puppy," for "prosperous urban Punjabi who is young." But where the consumer itch is involved, even ordinary Indians are not above one-upmanship.

Beliefs and Values

Service firms in India have been greatly affected by the socio-cultural factors — for better or for worse. There are firms who have ignored them at their peril, like the East India Company, who were myopic and insensitive enough in continuing to use pig grease in the new bullets of the Lee Enfield rifle. The result was a revolt in the ranks (The Sepoy Mutiny of 1857), which changed governance in India.

Example: Today there are firms like HSBC, which made a detailed study of the Indian consumer and his socio-cultural fabric. HSBC has customized itself according to local culture and promotes itself keeping in mind the values and beliefs of the Indian customer.

Caselet

Mass Market Restaurateurs: The Shettys

The Shettys - a certain martial race community from Karnataka, like the Coorgis - are a case in point. They run the ubiquitous restaurants in Mumbai offering all things to all - South Indian and North Indian fare - yet, the food is rarely authentic. The sambar, a vegetable-cereal gruel, sour in taste, is not what it tastes back at home, the newly arrived South Indian in Mumbai discovers to his astonishment. It is actually sweet! The reason is classic marketing oeuvre: Gujaratis are the moneyed people in Mumbai, mostly in business and they prefer their dishes sweet; like the Rajasthanis, they perceive that anything that is sour must be stale! So the Shettys, despite being South Indian themselves, have tailored their offerings to the preferences of a certain large segment of the market and successfully established themselves. These customers, the Shettys have analyzed, have the capacity to pay, are in the majority, and their preferences are governed by their cultural predispositions. It really didn't matter that for a connoisseur of authentic South Indian or Punjabi food that these restaurants were frustrating experiences. For the majority of the customers it was simply fine. Curiously, the Shettys could never replicate their Mumbai success anywhere else. One reason could be that the discerning diner in North and the East already had recourse to authentic Punjabi, Bengali, Chinese or South-Indian cuisines (availability). Another could be that no one community's preference guided the cuisine taste and design. So was the story in the South.

Similarly, people in the North – and Delhi offers a good representative study – prefer their chicken dishes with bones; diners in Mumbai don't, probably because it is time-saving - a concept so dear to them.

Source: Service Marketing: Concepts, Planning and Implementation, C K Bhattacharjee, Excel Books

Age Composition

The age composition of the Indian market is veering towards the youth - very unlike the Japanese market.

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Did u know? 85% of the Indian market consists of people below 44 years while in Japan, their geriatrics market is increasing, and is one of the highest in the world.

The service marketers were gearing up to target this increasingly youthful segment. This segment was the famous "me-only" generation as well as those who were looking back wistfully on their lost youth.

Youth: Citibank credit cards innovated in 1999 by targeting management students. They were offered its low-end Silver Cards free while they were still studying. The idea was to inculcate in them the habit of card usage and the company hoped optimistically that once they were working managers, they would remain brand loyal and the card investment would start paying off. Citibank was successful in making an early customer acquisition. It is still one of the largest players in all segments, although the competition is fast catching up.

Then again, from the point of view of the service employer, certain sectors have targeted this segment with satisfactory results. Retailing and the exploding call centres have more employment from this age group - partly due to their very specific job profile, odd working hours, and hard and long labour.

Mid thirties: Tour package companies were innovating with service product designs which included Near-East, Far-East, Australia, the US and European tours. UVI Holidays and Wanderlust - two niche players in the tour package market - were offering adventure sport holidays, like white- water rafting, heli-skiing and a trip in the Konkan, etc. Restaurants, hotels as well as resorts were targeting these groups.

Many insurance companies are coming up with schemes specially targeting these middle aged people. They have come out with early retirement schemes where people can invest and get regular benefits. Banks are also looking for such people who wish to set up their own businesses or build their houses.

Gender Structure

Women constitute 50% of the population while in some states like Kerala and Mizoram, the ratio is in favour of women. The gender structure and balance has especially affected certain services like teaching in schools, nursing, etc. There has been enlargement in the roles perceived and sanctioned by society. Women, since the early eighties, have come out in droves into the workforce - especially in services. This is due to their increasing exposure to education, perceived higher value of themselves due to exposure to mass-media influences and of course the explosion of the service industry which seemed to be the perfect ground for women. It paved the way for the emergence of the working wife, once regarded by the middle class as a sign that her husband could not support his family. Products have been tailored for the working woman and designed with her in mind.

Example: Banks and insurance companies are coming up with plans specially targeted towards women. With an increase in number of working women, they are also increasingly becoming interested in mutual funds and share trading.

Task Find out the current male-female ratio of all the Indian states. Also analyse the impact of such data on service marketing.

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Family Structures

There have been enormous changes in the traditional family structures, which has necessitated role reversals, influenced service offerings and service consumptions. The different family structures and their evolution include the joint family system, the nuclear families, single parents, mess systems, etc. In each case, service has been affected and has adapted to the changes.

Banks and insurance companies are now targeting a family as a whole. They are coming up with plans that cover all the members of the nuclear family.

2.1.2 Legal Factors

The legal factors are a percolation of the political and governmental factors. So, often, they do merge in environmental analysis. But increasingly, political factors are getting moulded by the legal norms – especially with internationalisms – like WTO and Environmental norms.

There are more laws and regulations for the service industry than for manufacturing. Over the years banking, insurance and accountancy has grown in complexity. The legal ramifications – local, domestic, and international – are greatly affecting the service industries. There is always the question of sovereignty, especially with the services.

Example: A case in point is the oncoming legislation in the state of New Jersey, to prevent companies from sourcing their back-office operations to off-shore BPOs (read Indian BPOs), especially state work. A major BPO, eFunds have closed shop in India due to the pre-legislative pressures. These legal initiatives, with political overtones, are due to the loss in BPO jobs in their respective countries. There are angry rumbles from the unions in the UK due to the seemingly irreversible job losses.

The public sector bankers were, in the eighties, prevented by regulation from using advertising and other promotional tools. The logic was that since the shareholder was only one, the government, there was no justification for advertising and promoting the services and the offers, which anyway were designed by the RBI and the parliamentarians. Limited promotion was permitted when new branches were opened, or for deposit mobilization initiatives/loan *melas*.

No banks could open branches at will. Reserve Bank of India would give permission and Licence to open branches – *in those areas they decreed, mostly rural*.

There were strict guidelines in the areas a bank could put its money. A bank had to compulsorily put more than fifty per cent as Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) while almost 35 per cent was reserved for priority sector lending - which had no hope of any decent return. Banks had to invest the remaining 15 per cent in industries and business, pay its establishment costs and declare dividends!

Banks were fined if they did not adhere to the norms. Foreign banks like Citibank paid the fines for breach of the former and did not risk bad loans.

2.1.3 Economic Factors

The ability of all service firms to survive and prosper depends wholly on the Central Government's economic policies.

The government economic policies have had tremendous impact on management – especially of service firms. An economy has a business cycle of half-a-decade, lasting from one *peak* (high

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point of expansion) or *trough* (minimum point of contraction) to the next. A business cycle consists of the following:

- Recession
- Recovery
- Growth
- Decline

Some businesses cycles have lasted for 100 months while others have lasted for as little as 28 months. Recessions have also varied in their intensities; those which have hardly been noticed are called as slowdowns and those which have had deep impact on the economy are known as depressions as witnessed by the United States from 1929 to 1939.

Service managers are keen to develop the ability to forecast the duration and intensity of recession. Obviously this would aid their strategy and other plan outlays.

The Indian economy has been suffering under the grand delusions of the early planners. Having suffered too long under the British rule, they had a grand vision for the nation and turned all aspects of plans to the development of a command economy. They naïvely thought that a nation's economy was controllable to the extent of grand projects, and centralized orientations. This robbed people of their entrepreneurial skills and made them look up to the government for each and every initiative.

2.1.4 Political Factors

Politics is the science of government. The governmental influence has been omnipresent and service firms have been greatly affected by the policies and other decisions made at the Central, State or local level. The Japanese have made a virtue of deriving 'political advantage' from a stable and constructive relationship that makes government and management allies in the battle for global competitiveness.

In India, socialism was the dominant political mantra and to a great extent prevented many service sectors from blooming. This resulted in the forever talked 'boom' being just that: forever-talked. India is a case study of lost and missed opportunities – in science, humanities, town planning, sports, political alignments and also services.

Soon after Independence, India set about taking the destiny of the nation to a utopian dream. Like all such dreams (communism, Marxism, 'pure race' of Hitler, etc.), it ended with missing the wood for the trees. Focusing on the 'command economy' drivers made the government the biggest employer, a monopoly in many sectors, created a Frankensteinian monster in the gigantic bureaucracy, and successfully sapped the entrepreneurial instinct of the nation. The bureaucracy completed what the British had started. The service entrepreneur found himself bound hand and foot within the labyrinth of forms, rules, regulations and tight cash flow.

2.1.5 Technological Factors

Some technological developments which affected services:

- Universal Product Code
- Credit cards technology
- Electronic Data Capture
- Quick Response Inventory Management System

Notes

- ATMs with V-SAT
- The Internet
- Data mining and data warehousing technologies
- Imaging technologies
- Cellular phone technologies

Of all the retail banks in India, it is Citibank first and then ICICI Bank that took technology to grow fast, derive higher productivity and cover a wider market base.

Did u know? Citibank, long before others realized its importance, invested in technology - be it in micro-film, micro-fiche, scanning, data mining, data warehousing, satellite communication systems, etc. It moved its entire card business to Chennai in the early eighties and served its entire customer base through telephones linked via satellite.

ICICI Bank is visible mostly through its wide proliferation of ATMs. It has one of the highest ATM to-manned-branch ratios (1,000 to 300) and helped them to expand at a frenetic pace. It has used the V-SAT technology to uplink all its ATMs with its branches. A customer can now operate his account from any of ICICI Bank's dedicated ATM network or through its arrangements with other banks' ATMs. It uses note-counting machines at its branches and saves a lot of valuable time for the bank. Other banks have also followed suit with ledger-posting machines. It and HDFC Bank have quickly adopted net banking and online share transaction systems.

Case Study

The Wal-Mart Story

"We're all working together; that's the secret. And we'll lower the cost of living for everyone, not just in America, but we'll give the world an opportunity to see what it's like to save and have a better lifestyle, a better life for all. We're proud of what we've accomplished; we've just begun." **- Sam Walton (1918-1992)**

Sam Walton's dream was simple: Give people high value, low prices and a warm welcome. That dream was realized in 1962 with the opening of the first Wal-Mart. Today, Wal-Mart Stores, Inc. employs more than 1.2 million associates worldwide. The company has more than 3,000 stores and offices across the United States and more than 1,000 stores internationally. It has also expanded online with Walmart.com, which is dedicated to bringing Sam Walton's dream to the Internet.

Environment Assessment

Employees

Wal-Mart has come a long way from the first store in 1962. While Sam Walton created the world's largest retail corporation-which exceeded $ 100 billion dollars in sales in 1996-his lasting legacy will not be the establishment of a multi-billion dollar corporation, but rather the way he revolutionized the philosophy of excellence in the workplace.

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Along the path to success, Wal-Mart has remained No. 1 by staying true to Sam Walton's basic values and beliefs:

1. Respect for the individual
2. Service to customers
3. Strive for excellence

Wal-Mart accomplishes this by bringing bright, active people from diverse backgrounds together. Wal-Mart has always been an organization whose strength lies in the belief that extraordinary results can come through empowering ordinary people. In the history of major U.S. corporations, few are more passionate about principles.

Challenge

It is Wal-Mart's first belief, "Respect for the individual", that they are finding hard to follow. Across the States, its employees have slapped it with various lawsuits.

In fact, Wal-Mart has been dropped from Fortune Magazine's list of 100 Best Companies to Work for America's largest employer fails to deliver the benefits that its associates deserve for making Wal-Mart the largest corporation in the world. It is no wonder Wal-Mart has been left off the list when it:

- Fails to provide affordable health care coverage to its workers, leaving them to forgo health insurance because they cannot pay the bills;
- Faces continuous legal problems, from discrimination cases to violations of the National Labour Relations Act;
- Tells associates that their union activities are being monitored, asks associates to spy on co-workers on behalf of the company, and interrogates associates about their union activities.

Solution

1. Pay their associates a living wage so that they can afford basic living expenses such as a home, health insurance, and modest savings for children's college and retirement.
2. Provide affordable healthcare.
3. Treat injured workers fairly and provide prompt and complete medical attention for workers injured on the job.
4. Stop illegal interference with associates' right to organize; cease all coercive, threatening and bullying tactics to discourage organizing, and let the workers freely decide.
5. Adopt less cut-throat, more co-operative policies that respect established commercial districts and avoid pricing out small businesses.
6. End employment practices that discriminate against workers who are women, people of colour, and lesbian, gay, bisexual and transgender.
7. Truly respect all associates as individuals irrespective of race, gender, religion, or sexual orientation.
8. Respect the environment.

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Notes

9. Restore the Wal-Mart spirit of company founder Sam Walton, of being a decent neighbour and good employer.

Today's Wal-Mart is not the Wal-Mart of Sam Walton. Today's Wal-Mart may be a sales leader, but has lost its moral compass. Wal-Mart must restore the integrity and respect for the individual that were the hallmarks of Sam Walton's values.

Technology

At the core of Wal-Mart's principles is a commitment to low prices. Managing its inventory is critical to keeping costs down and is especially important to a large enterprise like Wal-Mart, which has thousands of stores and tens of thousands of suppliers.

Wal-Mart requires up-to-date sales information as well as good communication with its suppliers.

Wal-Mart turned to technology in the early 1980s-first for collecting and analyzing sales data, then for transmitting orders to suppliers through electronic data exchange. By the 1990s, Wal-Mart was collaborating electronically with thousands of suppliers using its own applications, known collectively as Retail Link.

Although Retail Link elevated Wal-Mart to a new level of efficiency, the company was saddled with the task of sending the necessary software to vendors, making sure the vendors had the proper versions, and maintaining a bank of dial-up modems.

Wal-Mart is also strongly committed to effective employee communications. But with more than a million employees, the company found it difficult to keep staff informed and connected to one another. Such a connection is especially important to Wal-Mart: Founder Sam Walton believed that store associates should be thoroughly knowledgeable about their corner of the business. When employees have important information to share, they need to know where to send it.

Challenge

To keep costs down, Wal-Mart needed to build on the success of its Retail Link application, while making the inventory management system easier for vendors to use and for the company to administer and manage. It also needed to increase productivity by improving communication among employees.

These challenges were complicated by the fact that Wal-Mart has tens of thousands of suppliers-all using their own disparate computer systems and technologies. It also has more than 1 million employees spread out among approximately 4,000 stores, clubs, and super-centres worldwide.

Solution

Wal-Mart partnered Cisco Systems to transform Retail Link from a traditional dial-in network to an Internet application and to create-Pipeline, its company-wide intranet.

Vendors can learn how their products are selling, create what-if scenarios, and then work with Wal-Mart on sell-through and pricing. Password protection provides varying levels of access to information.

The Cisco solution provided immediate benefits to Wal-Mart:

- The system is **easier for vendors to use** because they need only a Web browser, rather than specialized software, to access the network.
- It is simpler and **less expensive** to maintain.

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- Because the system is Internet-based, more of Wal-Mart's **international suppliers can use it**.
- It can **deliver information more quickly**, because data transmission is no longer limited to the speed of dial-up modems.
- **Software can be updated** on the Web instantly.
- Connectivity between the stores, the centralized database, and the distribution centres is **more reliable**.

To complement the supplier-focused Retail Link, Wal-Mart introduced Pipeline, a company-wide intranet. Pipeline delivers company news, policies, procedures, and other relevant information to Wal-Mart employees. It also provides a complete, up-to-date telephone directory of the entire company organized by name, location and function. Pipeline is a much more efficient way of locating phone numbers both within and outside the company: it eliminates the cost of directory-assistance calls, as well as the need to distribute telephone books to all Wal-Mart locations. Employees can also use Pipeline to sign up for insurance, review company policies and check out benefits information, all online.

Results

The solutions, that Cisco offered – Internet applications for supply-chain management and a companywide intranet – helped Wal-Mart to:

- **Satisfy customers** by providing them with products they wanted at low prices
- Work with the company's buyers to **manage store inventory**, including forecasting, planning, producing and shipping
- **Lower its inventory costs**
- **Communicate better** with its many vendors and suppliers
- **Improve internal efficiencies** and employee self-service functions

Wal-Mart's Pipeline intranet offers many additional benefits:

- It serves as a vital resource for internal information, delivering company news, policies and procedures to more than 1 million Wal-Mart employees.
- It provides employees with **crucial industry information** and access to a company-wide phone directory.
- It helps keep **human resources information** current and allows employees to easily access their benefits data, sign up for insurance and update their records.

Legal

The latest reports indicate that Wal-Mart is fighting 38 different state and federal lawsuits filed by hourly workers in 30 states, accusing the company of systematically forcing them to work long hours off the clock. Two years ago, Wal-Mart settled a similar suit in Colorado reportedly for $ 50 million. Most lawsuits are waiting to be certified as class actions so that thousands of workers with similar claims can be represented together. According to the New York Times, June 25, 2002, 23 states are awaiting rulings for class action status, two states were denied class status but are appealing, and three states have been granted class action status.

In addition, there are about 150 different lawsuits filed across the United States.

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Socio-Cultural

Wal-Mart's founder Sam Walton believed in servant-leadership, which makes it their mission to serve their associates and customers with compassion and integrity. Their emphasis is on their associates, children, families, the local community and other local programmes that improve the quality of life in their communities.

Specifically, Wal-Mart focuses their giving on:

- Community education and scholarships
- Family health and welfare needs-particularly the youth
- Economic and workforce development programmes that benefit the communities
- Environmental issues
- Community-based organizations

Challenges

Today with the legal problems that Wal-Mart has, a lot of its good work goes unnoticed. Although Wal-Mart claims to generate employment in the community where it sets up shop, research shows that for every three jobs generated, two are lost. It takes Wal-Mart three years to completely wipe off the small retailers in the community. With its supply chain well networked, local companies have no option but shut down. Wal-Mart needs to be compassionate towards local communities.

To conclude, Wal-Mart will have to revise its employee policies worldwide, if it is aiming to be an employer of choice. It would need to introspect while expanding, especially in international markets where competition is more intense and price is not really an issue.

Questions

1. If Wal-Mart were to enter India, how should they evaluate their environment?
2. Is there a case for them to ignore SLEPT factors - as there are hardly any regulations on retailing?
3. Give Socio-cultural reasons to elucidate why Wal-Mart may not succeed in India.

Source: Service Marketing: Concepts, Planning and Implementation, C K Bhattacharjee, Excel Books

Self Assessment

State whether the following statements are true or false:

1. ICICI Retirement benefits plans usually target the middle aged people.
2. Foreign banks need to adopt Indian cultural values in order to function successfully here.
3. Free SMS packs and Free Night Talk time plans are usually designed keeping the youth in mind.
4. Daycare services target traditional Indian joint families.
5. The banking firms in India have to abide by the rules and regulations laid down by the RBI.

Notes

2.2 Internal or Micro Environment

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

- External customers/consumers
- Internal customers/channel partners/providers
- Competitors
- Suppliers
- Regulators

Internal customers are an intrinsic part of a service firm's environment consisting of employees, channel partners, providers, Direct Sales Agents, etc. They are controllable, and directly affect the service firm in its business endeavour. All service firms accomplish their objectives through the action of their employees. The employees work to further their personal, social and economic agenda. They are so important and crucial a variable that they have become an important marketing mix variable for the service firm. The main challenge in the employee-employer relations is to create situations wherein both achieve their goals. Therefore, this environment factor is either strength or a weakness to the service firm.

Example: ICICI and HDFC bank always consider their employees to be one of their main strengths, and place them prominently in their public relations, publicity and promotions initiatives.

The employees are de-motivated, under-trained and always give 'a government enterprise' impression to the customers, unlike private courier companies such as Blue Dart and Blaze flash. It soon becomes clear to the customer which of the two has better customer service, a fact that is also clearly reflected in their profits disparity.

Consumers, Suppliers, Competitors and Regulators are all external to a service firm's marketing context. Therefore they are either a threat or are considered to be an opportunity for the service firm.

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 can also transform into threats, if they are in a litigious mood and insist on taking a service firm to court on some consumer grievances.

Task Prepare a list of the suppliers of any Airlines in India.

Suppliers for ICICI Bank could be National Cash Register (NCR), which delivers and maintains its Automated Teller Machines (ATMs). Its 'tropicalised' high technology would be perceived as an opportunity by ICICI Bank. It could be perceived to be a threat if it becomes a monopoly in its area and starts dictating tough terms to ICICI Bank. ICICI Bank should then realize (hypothetically) that it was high time to develop other suppliers.

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

- Provide equal product value but operate more efficiently than its rivals (lower cost), or
- Operate in a unique way that creates greater product value and commands a premium price (differentiation)

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Non-innovative and non-competitive public sector banks could be perceived by the new private sector banks not to be a threat but an opportunity; while the second foray of SBI into the cards business with General Electric's technology support could be perceived as a threat by the established card players (as indeed they did).

Service firms that are not able to compete will have to change their service product line or else might face extinction, like the paging services mentioned earlier. There are five forces that decide the degree of market competition within a service firm's task environment.

2.2.1 Porters Five Forces Model

Figure 2.1: Forces that Shape Industry Competition

Source: www.hbr.org

Rivalry among Existing Service Firms

With competition, service firms use tactics like price, comparative advertising, and increased customer service or warranties. When the status quo is disturbed by one player - it could be for more opportunities, quest for market share or the service firm feels market pressures, etc. – rivalry develops. The intensity of rivalry depends on the type of market and the differentiation between rivals. Competition is both good and bad for the industry.

Relative Power of Customers

When customers are in a buyer's market, are mature and have a plethora of choices in services and players, their bargaining power increases. When too many service firms fight for the same customers, it will erode the profitability of the service firms. The shakeout is being witnessed in the satellite TV channels. With over 80 channels vying for the viewer's attention, the channels are skating on very thin margins.

Notes

Relative Power of Suppliers

Suppliers begin to pose a threat when they start raising their prices. The increased cost of goods for a retailer will tell on his profitability if the retailer is not able to recover his price. Service firms should look for alternatives and substitutes.

Threat of New Entrants

New entrants will increase supply, diluting the exclusivity of the service and sending premium prices into a downward spiral. Also, the new entrants will seek to increase market share. This will see a further lowering of prices, affecting profitability of all competitors across the board.

Threat of Substitutes

Service firms compete with each other (direct) but also with substitute goods and services.

Example: SBI will not only compete with other retail banks but with LIC, Birla SunLife, etc., for insurance, with Post Offices for savings and with the IPOs of companies for its mutual funds.

The service marketer should constantly look out for this threat - as it is the most invisible competition of all.

Self Assessment

Fill in the blanks:

6. Channel partners are …… customers of an organisation.
7. Distributors and suppliers are part of a firm's …… environment.
8. Indian Speed Post is facing threats by increased no. of courier services that serve as …… competitors.
9. Spice Jet Airlines is a …… competitor for Indigo Airlines.
10. The intensity of rivalry depends on the …… and the differentiation between rivals.

2.3 Environmental Scanning: Scenario Building Approach

This process is futuristic, and the decision-maker has to analyze his decisions in relation to his future. The following steps are involved in this technique:

Stage 1: Analysis of the Decision(s)

The decision-maker makes a detailed analysis of all the resources that he might require to implement his decisions.

Example: Thus, if a financial institution like ICICI decides to go into retail banking, then it has to take into account the human and material resources that would be required.

It could include among others an analysis of the estimated distribution networks, technology and technology support.

Notes

Stage 2: Identification of Key Decision Factors

The service marketer identifies all those variables that influenced his decision.

Example: For ICICI to go into retail banking, it would analyze the new banking norms (government policy), market share of the existing players (competitors), growth and potential of the market (customers), etc.

Stage 3: Identifying the Socio-cultural Factors

The service marketer should identify and evaluate the influence of such social and group forces as demographic changes, social class, culture, family and household influences, value systems, reference group influences and the consumer-decision-making process.

Example: ICICI would have taken into consideration the age distribution of the market, the income and occupation of prospects, the spread of the population in metros and other towns, product development and communication strategy. It would also have analyzed the banking needs of the market and their inclination towards time-saving devices.

Stage 4: Analysis of each of the Key Variables Separately

All the above variables are independently analyzed and all other details are collected for each of them. The sources of data are secondary as well as primary.

Stage 5: Selection of Scenario Logics

The collected data are then extrapolated and projections are made. The scenario build-up is supported with more evidence.

Example: Thus for ICICI, the growing middle-class and its aspirations for a better banking climate would be relevant to the decision to go in for retail banking.

Other evidence could be the consumerism of the middle-class, their upscale lifestyles, etc.

Self Assessment

Match the following activities given in Set A with the stage (of Scenario Building Approach of Environmental Scanning) at which they are undertaken (in Set B):

Set A

11. XYZ Beauty Salons decides that it will open its salon in ABC city.
12. XYZ Beauty Salons analyses all the external and internal marketing variables.
13. XYZ Beauty Salons studies the age distribution and male-female ratio in ABC city.
14. XYZ Beauty Salons identifies its competitors in ABC city.
15. XYZ Beauty Salons checks whether it has enough resources to set up a salon in ABC City.

Set B

(a) Stage 1 (b) Stage 2

(c) Stage 3 (d) Stage 4

(e) Stage 5

Notes

2.4 Summary

- The services marketing environment can be broadly divided into external or macro environment or internal or micro environment.
- The external environment includes the SLEPT factors: Social, legal, economic, political and technological.
- The social factors that affect a service market are: consumption patterns, age composition, beliefs and values, gender structure and family structures.
- The legal factors are a percolation of the political and governmental factors. So, often, they do merge in environmental analysis. But increasingly, political factors are getting moulded by the legal norms – especially with internationalisms – like WTO and Environmental norms.
- Politics is the science of government. The governmental influence has been omnipresent and service firms have been greatly affected by the policies and other decisions made at the Central, State or local level.
- The internal marketing environment includes external customers, internal customers, competitors, suppliers and regulators.
- Internal customers are an intrinsic part of a service firm's environment consisting of employees, channel partners, providers, Direct Sales Agents, etc. They are controllable, and directly affect the service firm in its business endeavour.
- Scenario Building Approach is a good way to analyse the environment. This process is futuristic, and the decision-maker has to analyze his decisions in relation to his future.

2.5 Keywords

Depression: recession that have high impact on the economy

Internal Customers: People within the organization who either require support and service or provide information, products, and services to service providers.

Marketing Environment: The various external forces that can directly or indirectly affect the many activities of an organization.

Peak: High point of expansion.

Porter's Five Forces Model: This model identifies and analyzes five competitive forces that shape every industry, and helps determine an industry's weaknesses and strengths.

Slowdowns: recession that is low in intensity.

***Trough*:** minimum point of contraction.

2.6 Review Questions

1. Suppose you are the marketing manager of a modern and technically equipped beauty salon. What measures will you take before opening a store or chain of stores in a new city?
2. Why is it important for a fast food chain like McDonalds to study the social factors before entering a new geography?
3. "Politics is the science of government". Discuss. Also discuss the impact of politics on service market.

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4. Suppose you are the marketing manager of a chain of gymnasium and spa, which is soon going to commence its operations. Do a micro environment analysis for your service firm.
5. What could possibly constitute the external environment factors for HSBC for its foray into the insurance business in India? Explain your answer.
6. Explain the ways in which internal environment factors can work against a hotel chain in India.
7. How should Cox and Kings go about analyzing the external environment while making an entry in the travel market of Turkey?
8. How would you make a market opportunity analysis for a new BPO entrant?
9. How would you go about identifying and analyzing competition using the competitor typology?
10. Analyze the effect that technology can have on the efficiency and effectiveness of a service marketer.

Answers: Self Assessment

1.	True	2.	True
3.	True	4.	False
5.	True	6.	Internal
7.	Micro	8.	Indirect
9.	Direct	10.	Type of market
11.	e	12.	d
13.	c	14.	b
15.	a		

2.7 Further Readings

Books

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US

Leonard L Berry, *Great Service: A Framework for Action*, the Free Press

Online links

www.managementparadise.com/forums/...php/t-44930.html

www.waesg.com/wa-codes/wa-class.htm

http://marketingteacher.com/lesson-store/lesson-marketing-environment.html

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Unit 3: The Service Marketing Mix and Purchase Process

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Objectives

After studying this unit, you will be able to:

- Identify the constituent of the service marketing mix
- Describe the buying situations faced by consumers
- Discuss the purchase process for services

Introduction

This unit gives as brief overview of the service marketing mix and takes you through the service purchase process. Marketers have found that the traditional four Ps – product, price, place and promotion, fall short when the strategy for marketing services has to be designed. Marketers and strategists have identified three more Ps namely, people, process management, and physical evidence, for the marketing mix of services.

The customer is the main reason for the existence of the service firm, forming the basis for all marketing strategies like segmenting, targeting and positioning. Without an understanding of the customer, it would be impossible for the marketer to deliver the offer, more so in the face of increasing competition. For better understanding of a consumer, the marketers need to understand

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the buying situations faced by the consumers and the purchase process. Both of these are analysed in this unit.

3.1 The Service Marketing Mix

The four traditional Ps of the marketing mix - product, place, price, and promotion are adequate for marketing a product. However, they fail to cover the following aspects, which differentiate products from services and are, therefore, important for services marketing.

- The product element involves only tangible aspects and is therefore not appropriate for services, which are basically intangible in nature.

Example: The strategy used to design and launch a new motorcycle model cannot be adopted for launching a new service as a variant.

- A part of the promotion of services usually takes place at the time of consumption itself. This is not so in the case of a product. In fact, the people involved in service production handle the promotion too in most cases.

Example: The way in which a waiter at a restaurant provides service to the customers is a form of promotion of the service.

However, the promotion element of the traditional marketing mix does not take this difference into consideration.

- In the Indian scenario, the public sector produced most of the services until very recently (it still produces many services like rail transport). Very often still, the end consumer pays the standardized and subsidized price, and this aspect is ignored by the price mix.
- The dual role played by service customers as co-producers and end consumers in the production of service goes unnoticed by the four traditional Ps.
- The four traditional Ps fail to capture the importance of distribution for services. In most of the services, the production and consumption takes place at the same time; therefore, the distribution channel is either absent or is very small.
- Further, consumers are unable to perceive the quality standards of services before consumption. On the other hand, marketers are not able to identify and measure the elements of the marketing mix that can deliver quality service.

Caution The above problems faced by marketers have led to the addition of another three Ps for marketing services, namely, people, process management, and physical evidence.

3.1.1 The Expanded Marketing Mix for Services

Services have special characteristics like perishibility, intangibility and inseparability, which distinguish them from goods. People, process and physical evidence play a greater role in the marketing of services than in the marketing of products.

Product

Marketers have identified three levels in developing the product element of the marketing mix as far as services are concerned. The 'core' level aims to satisfy the important needs of the

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customer while the 'tangible' level manages the appearance of the product. The 'augmented' level involves the addition of supplementary services to the basic offering.

These three levels can be condensed into two, the core level that caters to the basic benefits and a secondary level which includes the tangible as well as the augmented service levels. The core level basically deals with the service offering while the secondary service level deals mostly with the delivery of service.

Example: The core service of a restaurant is to serve good food to the customers while the secondary service includes providing them with a good ambience.

It is easy to differentiate products from one another when compared to services.

Example: How can a customer differentiate between the services of two banks which offer similar schemes and interest rates?

The new product development for services, therefore, involves offering innovative services and adding new secondary services at regular intervals. This helps marketers attract and retain customers in a competitive market.

Pricing

The pricing of services is very different from the pricing of goods for various reasons. Services, for example, can be differentiated based on their price, as a higher price is generally associated with better quality. Another differentiating factor between services and goods as far as pricing is concerned, is the cost component involved. The fixed cost is high and the variable costs are low for a service, when compared to a product.

Example: The marginal cost involved in serving a customer in restaurants is negligible while the fixed cost of establishing and maintaining the restaurant is high.

Therefore, a major part of the price paid by the customers is directed towards covering the fixed costs of the service provider. In case of a product, a major part of the price paid by the customer goes towards the variable cost of producing that unit of the product.

Another important aspect of pricing of services is that the price of the same service can be changed depending on the demand for the service. Though this happens with some of the products which are seasonal, it is basically dependent on demand as far as services are concerned.

Example: The owner of a discotheque can increase or decrease the price of entry depending on the demand. Similarly, banquet owners raise the tariff during the peak season and lower it during the lean season.

Promotion

Service consumers experience a high level of perceived risk when compared to consumers of products because of the intangible nature of services. Service providers should aim to promote their services in order to eliminate the elements of this perceived risk. This can be best achieved by encouraging and promoting positive word-of-mouth publicity, developing strong brands, offering a trial use of service for the customers and finally, by managing advertising and public relations effectively to clearly communicate the message to the customers. Promotion of service offers cannot be carried out in isolation without promoting the service provider, as consumers

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will not be able to rate the intangible services without knowing who the service provider is. Therefore, promotion of the service provider becomes equally important in services.

Example: A bank customer can identify and relate to a service offer in a better way when the service provider (the bank employees or the brand name) is known.

Another distinguishing factor for promotion of services is that the service personnel and other customers also participate in the promotion process.

Example: When a customer visits a restaurant or an entertainment park, he makes an assessment of the service based on the behaviour of the service personnel and the kind of gathering there.

Therefore, attracting the right crowd and employing the right people is very important for a service provider. This provides plenty of opportunities for service providers to promote their services.

Place

In services, place relates to the ease involved in accessing a service. Due to the inseparability of services, they are produced and consumed at the same place. This inseparability of services makes it impossible for service providers to produce the service at a place where the costs are low and sell it at a place where there is a high demand for it. Therefore, there is no distribution channel for services marketing, or if at all there is one, it is very small.

Caution Further, place decisions involve the following:

- The physical location of the service provider's outlet. Telecom network companies for example, are striving to provide their patron stores to improve accessibility to their services.
- The physical appearance and ambience of the place of service offering. The ambience in a bank makes the waiting customers satisfied or dissatisfied.
- The decision to use particular types of intermediaries to offer easy accessibility to the customers and improve operational efficiency of the organization. For example, the decision of a theatre owner to sell movie tickets either directly or through operators like bookmyshow.com.

People

Many service organizations involve their personnel both at the point of frontline delivery and during the production process that does not involve the final consumer. Thus, the service personnel have an important role in not only designing the service, but also in delivering it.

Many services involve consumers as co-producers in designing the service offering to suit their individual preferences. In these cases, the service personnel play an important role in helping the end consumer present his requirements precisely.

Example: In a salon, the service provider involves the customer also in the service and asks him various questions to ascertain his desires so that they can give the customers satisfaction.

Notes

The perception of a service by a customer also depends on the other customers receiving the same service. Basically, the image of the service is largely affected by the views and characteristics of other users.

Example: A hotel like Le Meridian has developed the image of an elite-class hotel with high-spending and high-profile visitors.

Further, the behaviour or performance of other consumers largely affects the service production and delivery process. Fellow consumers have the power to either degrade the service quality or elevate it.

Example: When a person behaves badly at a restaurant, the total experience of others gets negatively affected.

Similarly, when a customer behaves pleasantly in a restaurant and creates a good ambience, it enhances the experience of other customers as well.

Process

The production and delivery process in the manufacturing sector is easier than in the services sector. Marketers of services are often confused, as there is little difference between marketing and operations management in services. This is because the production, delivery and consumption of services take place simultaneously.

Example: A person in a movie theatre is required to purchase the ticket first, get his tickets checked at the security clearance and then get inside.

Customer service encounters have an impact on the quality of service delivered by the organization. A service encounter is the actual time period during which an interaction takes place between the service provider and the customer. Among all the service encounters, a few are very important for completing the service delivery process on a successful note.

Caution These particular interactions are named "critical incidents" and are directly responsible for customer satisfaction or dissatisfaction.

These feelings of satisfaction or dissatisfaction may result either from their interaction with the service personnel or from the interaction with the equipment or production processes.

Over the years, some service organizations have mechanized their service processes to reduce the element of human judgment and error in service delivery.

Example: Movie theatres have introduced ticket kiosks to offer convenience to customers and also reduce the human element in the service delivery process.

This mechanization helps reduce labour costs which along with competition in the service industry have increased tremendously. Organizations have also started involving customers in the production process to reduce costs. Though some customers' expectations are not met, others are ready to get involved in the service production activity for lower prices.

Example: A restaurant offering self-service can save on labour costs and can pass on the savings to the customers in the form of lower prices.

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Further, service organizations have identified customer segments that do not want to take the co-production responsibilities and are even ready to pay higher prices.

Task Consider any one national and one private bank. Notice the differences in their promotions, people and process.

Physical Evidence

Service customers experience a greater perceived risk as they cannot rate a particular service until it is consumed. Therefore, service providers should try to attach an element of tangibility to their service offering. The physical evidence can be in any form, for example, brochures or TV commercials showing the details of a holiday destination, pleasant and courteous behaviour of the service personnel in a bank, the location and ambience of a food outlet, etc.

Caselet

Turning Your Services into a Product

One of the biggest challenges in selling professional services is that what you are offering is intangible. Your product can't be seen, touched, or tasted. Until your prospective clients experience what you do, they have no way of knowing if it will turn out, whether they will like it, and how well it will work in their situation. To make a buying decision, the client must first trust that your work will produce the result that they need.

The most common way to package professional services is by the hour or day. The client pays for your time, and they keep paying until the project is declared complete. But clients are often resistant to this. You will hear them say, "I don't want to leave it open-ended," "That seems high for an hourly rate," "I'm not sure my budget will allow for this," or even "I'm not quite clear what it is I'd be getting."

You can overcome these barriers to making a sale by "productizing" your services. This awkward term simply means that you make your service look more like a product, so that it becomes easier for your clients to buy. You give it a defined scope, fit it into a limited time period, assign it a definite price tag, and attach a distinctive name.

Let's say you are an image consultant, and you've been selling your time for $75 per hour. Instead, you offer a "One-Day Makeover" at a price of $495, and include a wardrobe assessment, colour consultation, and shopping trip. You're giving your clients a defined result with a clear timeframe and set price, making it easy for them to buy. Plus, you are able to let clients experience a range of the services you offer and suggest additional ways they can work with you.

A market research consultant working with corporate clients at $150 per hour could instead provide a "Market Position Blueprint" for a flat fee of $2500. The package would include a comparison matrix of three key competitors, qualitative data from interviews with six loyal customers, and recommendations for improving the client's market position, all to be delivered with 30 days. Clients know in advance exactly what they are paying and what they will get for it.

When buying your services in a package, the client runs less risk. They don't have to worry about cost overruns or getting an unexpected result. They know how soon the

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result they are paying for will be delivered. There's also an emotional comfort factor in buying a package. Purchasing something with a name attached makes it feel much more tangible than simply buying hours.

For you, offering a package helps you get your foot in the door. Once you show a client what you are capable of, more business will often result. Even if you price your package at slightly less than what you would earn for working the same amount of time at an hourly rate, you will probably profit more because more of your time will ultimately be sold.

Many consultants find that fixed-price contracts are much more profitable than working by the hour. In a survey quoted by the late Howard Shenson in "The Contract & Fee-Setting Guide for Consultants & Professionals," consultants working exclusively on a fixed-price basis had 87% higher profits than those working on a daily or hourly basis.

To determine which of your services would be best to turn into a product, consider what your target market most often wants from you. Is there a specific set of steps you usually follow when first working with a new client? Activities that you perform repetitively with many people give you an opportunity to create templates, worksheets, and other tools that you develop only once and use over and over. This effectively allows you to charge for the same work more than once.

Be sure to spend some time on coining a unique name for your product. You want a memorable results-oriented name that will help you to stand out from the competition, and perhaps even allow you to trademark it.

To launch your first product, you may not need to do much more than develop a standard format for what you are already doing, set a price, and name your new invention. Taking this critical step toward making your services more tangible can result in easier sales, more repeat business, and more profitable engagements.

Source: www.marketing.about.com

Self Assessment

State whether the following statements are true or false:

1. In an airline, the behaviour of the airhostess can well serve as a promotional technique for the airline.
2. The good behaviour of the personnel at the bank is a part of their core product.
3. Price of the services is hard to alter. Once fixed, consumers will only be ready to pay that amount for a long time.
4. The Air-India 'Maharaja' itself promotes Air-India.
5. The free pick up facility provided by some airlines form a part of their augmented product.

3.2 Buying Situations Faced by the Consumer

Customers find themselves in different buying situations, from purchase to purchase and service transaction to service transaction. In other words, two trips to the retail bank for two different purposes (e.g., the first to deposit a cheque in his savings account and the second for a home loan) may not have the same purchase decisions. The second buying situation would differ greatly from the first if one or more of the following factors are absent:

- The customer is aware of the service product category and service brands.

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Example: Mrs. Sharma knows what a credit card is and is also aware of a particular brand in addition to other brands of cards.

- The customer has definite decision-making criteria about the purchase of the service offer.

Example: Mr. Roy is very clear about the hotel that he would like to stay in for his business tour. It should be close to the business district as also the airport; its tariff should not be more than ₹ 2,000/- per day and it should have a conference centre.

The customer is competent enough to evaluate the service offer and also has definite evaluation criteria.

Example: Mr. Kamath, a restaurant connoisseur, knows about food and its cost across many restaurants and can instantly evaluate them by their menu, decor and service personnel. He is well aware what a certain dish, perfectly cooked, tastes like and what it should cost in that particular restaurant.

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

The three buying situations as elaborated by Howard and Sheth are:

Straight Re-buy or Routinized response behaviour: Here the customer comes for repurchase of the same service product - say a 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. It would be the same when he goes to the post office for stamps or to the xerographer for photocopying.

Modified Re-buy or Limited problem solving: In this situation, the customer does not meet one or more of the differentiation criteria. He or she may be aware of the category or brand but not the new version or form. Then there is a small amount of problem solving for the customer. For instance, when Mrs. Subramanian goes for her weekly visit to the beauty parlour and asks for her usual treatment, the assistant solicits her attention to a new treatment with newer products and techniques. Mrs. Subramanian might then enquire about its core and peripheral benefits, its usage and after-effects, if any, as also about the price.

Example: Mrs. Sen might go to her usual retailer to ask for her usual Liril soap. The retailer might draw her attention to the new liquid Liril body soap. Mrs. Sen then might enquire about the new version and form of the soap, its usage and dispensation methods and its price and might wonder about its added social status benefits. Her problem solving is limited; she is quite sure about her decision-making criteria as also her evaluation criteria. She only lacked awareness of the product form, its added benefits from her usual cake of soap, and the price.

Extensive problem solving or Critical problem solving or New Task: A customer would be in this buying situation when the offer is totally unfamiliar, and he is not clear either about his decision criteria or his evaluation criteria. This is because of his lack of knowledge of the offer. In this situation, two or three of the conditions aren't met. This happens for most service offers like a vacation, package tours, flights, insurance as well as major consultancy contracts. The consumer is most of the time not aware of, say, the destination or its promises. Neither he is

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clear of the criteria of choosing a holiday spot, nor does he have the competence to evaluate 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.

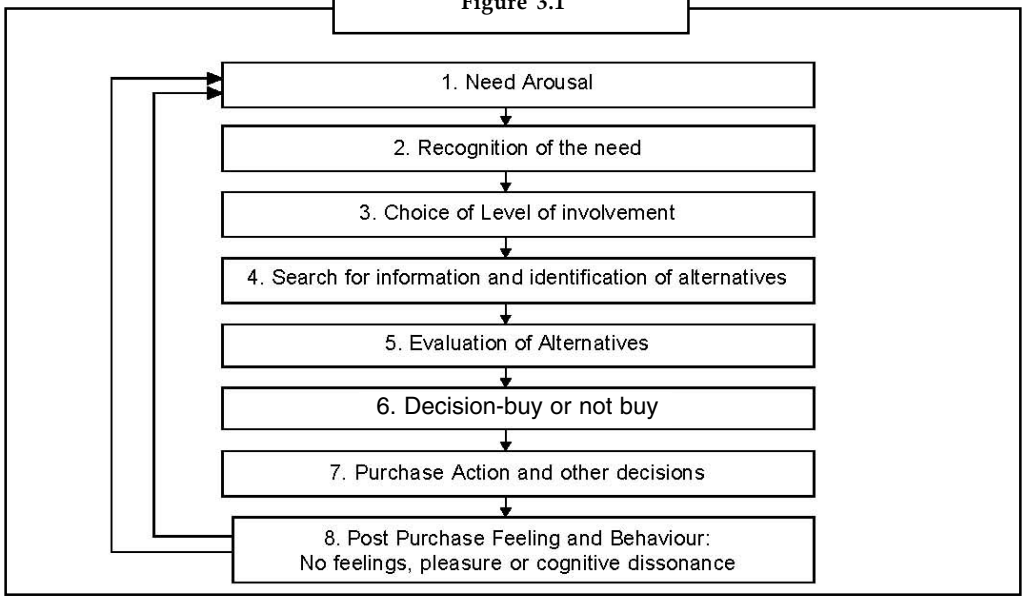
Self Assessment

Match the following sets:

Set A	Set B
6. Routinised response behaviour	a. Buying general medical services
7. Limited problem solving	b. Buying wedding planning services
8. Critical problem solving	c. Buying movie tickets

3.3 Purchase Process for Services

Figure 3.1



3.3.1 Need Arousal

To the customer, the service-buying process implies the service transaction and experience, while for the marketer it is the service encounter and the service delivery. The buying process is triggered by some unsatisfied need felt by the customer. The need could be aroused by a variety of sources or stimulus called cues or drives.

The cue is both commercial and social oriented. Commercial cues are controllable by the service marketer and can be intelligently engineered to arouse the customers' needs. They consist of the following:

- ***Service Product***: This seemingly may not be possible in services because of their intangibility. But brands and other tangibles can be suitably used to serve as a cue. Thus Monginis can use its cakes as the cue, while Thomas Cook can use its components of brands (name and colour) and services to stimulate need. This is one reason why travellers Cheques come in a handy little wallet — a tangible by product of the service transaction

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that out last, it, and one that serves as a pleasurable (and useful) visual reminder long after the service has been utilized. The more established the service, the more effective is the cue.

- ***Price***: Price is communicative, and from it, the customer perceives a lot about the offer's value, quality and positioning. A discount offered by a retail store, a holiday package tour company or a hotel might act as a cue. Even without any discounts, the prevalent price level conveys to the consumer a lot about the service offer's quality, target and value to the consumer.
- ***Display***: In retailing, visual merchandising is used to great effect in triggering needs. The customers are allowed to feel empowered in selecting the merchandise themselves, instead of asking for them, as was prevalent in the old format of retailing. Display of intangibles may not be possible, but other visualization cues can be used.

Example: Travel agencies use beautiful posters of destinations to act as the cue.

- ***Signage***: This is a component of the service brand, which targets the cognitive part of the customer's brain—enhancing their knowledge and their ability to recognize. The recognition stimulates the need for service consumption. Signage is used in outdoor advertising.
- ***Advertisements and Promotions:*** They are one of the most effective cues, successfully stimulating need. The content – including copy and visual – execution seeks to arouse the need for the service in the customer. News of any new promotions – discounts, freebies etc. – might also trigger the need.
- ***Distribution Outlets:*** This is a major source of cues - especially in retailing. In service outlets, the design, ambience, and atmospherics are examples of cues.

Example: Mobile service operators Orange/Hutch and BPL-Mobile employ this to advantage.

Social oriented cues are from word-of-mouth and through reference group influences. Due to the inherent intangibility, services are especially prone to word-of-mouth influences and are susceptible to need arousals, like movies and plays.

The drive is physical. This takes place when a consumer's senses of smell, vision, touch-and-feel, taste and hearing are assaulted by the presence or absence of the service product.

Example: The irregularity and absence of the maidservant might bring discomfort and inconvenience to a housewife and arouse in her the need for dry-cleaning, laundry services or a washing machine.

Similarly, while window-shopping, the physical touch and feel of a particular dress or fabric might trigger the need for the particular product. Fragrances stimulate the olfactory (smell) sense and evoke memories/reads at a subconscious level of the mind.

Thus display and trials stimulate the need response of the consumer.

3.3.2 Recognition of the Need

There are two types of need recognition: primary and secondary need recognition.

Primary Needs: The consumer categorizes his need by occasions, urgency and priority of purchase. He recognizes the need to purchase, say, clothes for Diwali, a watch as a wedding gift for

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someone, replenishing the larder, an insurance plan for saving on taxes, a dinner or a concert. Service marketers get an opportunity in influencing need recognition by displays in their retail outlets, advertising and promotions. Even visual merchandising can be used to great effect by retailers in stimulating demand.

Secondary Needs: There are follow-up needs to primary demands which could include both goods as well as services. A need for an engineering education would be followed by requirements for calculators, a PC, savings accounts if the student is staying in a hostel, clothes etc. A desire for a vacation might trigger the need for new luggage, casual clothes or a camera.

The service marketer should be savvy enough to recognize primary needs and be ready to service secondary needs.

Example: Citibank was quick off the mark in offering a personal loan when SBI Life Insurance and Om Kotak Insurance offered single premium insurance and pension policies. By themselves, the insurance and pension products were very attractive; what was a damper for the consumer was the large amount (over one lac rupees) for the single policies. But with the possibility of this personal loan, (secondary need), many decided in favour of the policies (primary need).

Retailers tend to bundle merchandise into complementary consumptions and provide cues for further purchases. A total merchandise package is offered and the retail staffs are trained to make suggestions to the customers for additional accessories. Thus a lady in her visit to the beauty parlour for facial treatment will be plied with cues and prompts for further services in hair treatments, skin care, etc. A gentleman who goes to a saloon for a haircut will be prompted to take advantage of a package deal which also includes a shave and head massage/facial.

3.3.3 The Level of Involvement

This is an indication of the amount of time and effort invested by the consumer in the decision-making process. If the consumer is not confident on the purchase decision or is not aware of the product, brand or even the service category, he will spend more time in the decision-making process. If he perceives the offer to have complex features, fears more risk in the consumption, or if there are more number of users, then he is bound to take more time in deciding.

Most financial decisions like savings, investments and insurance have complex features and riders. The insurance advisor has to be patient in answering all queries, persistent in his marketing and follow-ups, and extremely effective in his communication, so that the consumer is clear about the offer and its benefits. Similarly, decisions for vacations take more time for a family, as the number of users is large. Decisions for time-share resorts take a longer time to make than a one-off holiday, because the consumer perceives financial risks, longer lock-up of capital and irreversibility of the deal.

The service marketer should resort to branding, and standardization and increase awareness and usage to make people less involved. This will lower the time taken in decision making and reduce marketing time and costs for the marketer.

3.3.4 Search for Information and Identification of Alternatives

In this part of the decision-making process, the customer spends time and effort in searching for information and alternatives. For routine purchases, the customer will know the brand, and service product and be aware of its benefits. He would then spend less time in his search for information and alternatives for satisfying his needs. Brands that come to his mind and those he recognizes during the purchase are called the evoked set. But there is the consideration set which

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comes out of suggestions through friends, colleagues, advertising, etc. Service brands that come under the former set have more marketing advantages.

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 opportunity.

Did u know? Thus such marketing initiatives like call centres, websites and Customer Relationship Management (CRM) have been undertaken to give all possible information to the current and potential customer.

The service marketer should take care to be a part of the consideration set, too, so as not to miss out on the benefits.

If the customer is allowed to compare, he becomes empowered and takes a more rational decision. Therefore many service marketers try for settings that will prevent the customer from making a comparison. Exclusive authorized retail stores are one such example, which will make comparison between offers difficult for the consumer. Similarly, direct marketers get the advantage from the customer's inability to compare their offer during a service product demonstration and personal selling. The customer might end up paying higher prices for the service offer without knowing that a cheaper alternative was available. The flip-side to of this strategy is that the customer might have negative feelings for such retailing initiatives and may not patronize such outlets. The service marketer might lose out on the customer who might prefer multi-brand outlets.

3.3.5 Evaluation of Alternatives

The customer for the service starts making a comparison of the attributes of the alternatives based on his criteria of decision making. The criteria could be features of the offer like price, benefits - core and peripheral – reputation, and performance expectations. He then makes the comparison based on such subjective parameters as perception of brands and his own attitudes. The customer ranks his preference among the alternatives which tend to satisfy both functional and rational needs related to the performance of the product as well as psychological or emotional needs that goes with his self-image.

At this stage, the customer has almost made a decision from the information gathered, to buy the service offer, decline or delay the purchase.

Example: With the end of the fiscal year, an income-tax payee would search for different alternatives of tax-saving instruments. He would then rank his preference of such alternatives as insurance, home loans whose interest components are eligible for tax deductions, Infrastructure Bonds, Unit Linked Insurance Plans (a product of Unit Trust of India), National Savings Certificates, etc. He would then buy a particular service offer, decline any of them or delay the purchase, hoping to come across better instruments.

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Task Identify any three major courier service providers and evaluate them based on following parameters:

(a) Delivery time

(b) Customer service

(c) Price

(d) Areas covered

(e) Ease of process

3.3.6 Decision

With the overall evaluation as decision-making criteria, the customer takes either of the two decisions: to buy or not to buy. The decision to buy would include the offer, the most preferred brand, method of purchase (buying a book on the net, through catalogues, offline in a book-store or from the pavements) and payments (cash, by cheque, credit cards or through a loan).

3.3.7 Purchase Action and Other Decisions

What other decisions can possibly be left for the consumer after the decision to buy or not to buy? There is the purchase action and other decisions. In retailing, this may take the form of available colours and sizes of, say, apparel. A customer might take a decision to go for a movie or a concert but the experience and enjoyment would depend on getting the desired category of seats in the desired theatre.

Installations at home and usage could be other decisions.

Example: For a telephone connection service, a customer would have to take such decisions as to whether the telephone set should be placed in the bedroom or drawing room. Who will be authorized to use the long-distance telephoning facility would be a usage decision.

Case Study **Decision Makers in India**

Even today, only 16 per cent of Indian professionals are women. Therefore, consumer decision-making in all areas – ranging from what cars to buy to what clothes manufacturers to patronize – is dictated by men when it comes to the most upscale market segment in India.

'Horizon 2003', a study by BBC World, BBC's 24-hour international news and information channel, using the latest census as a base, gives some startling insights into the attitudes and activities of India's leading consumers and decision makers. The research, conducted by market research agency NFO-MBL across six top metros and profiling 380,000 people, will greatly help media planners, agencies and advertisers to understand this particular horizon professional:

1. Life insurance was found to be the biggest financial investment for most Indians, followed by the stock markets.

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2. Washing machines were the most desirable consumer durable products, followed by cars and desktop computers.

3. Forty-two per cent of the respondents owned a mobile phone, of which 52 per cent had a Nokia, and 42 per cent of these subscribed to AirTel cellular service.

4. For example, more than half of the people surveyed (56 per cent) felt that it was all right to give or take bribes to get their work done. A slightly smaller number (40 per cent) thought it perfectly acceptable 'to make money through underhand means/deals.'

Who decides?

	Self	Spouse	Joint	Family	Elders	Children
Buying a house	25%	5.8%	20.8%	30.1%	14%	0.4%
Child's marriage	7.7%	5.9%	21.8%	18.7%	11.5%	4%
Own marriage	20.4%	2.5%	6.2%	22.4%	29.7%	0.9%
Child's education	15.1%	6.6%	34%	12.5%	5.6%	4.6%
Taking a loan	31.4%	5%	24.3%	18.1%	9.2%	0.6%
Fixing monthly budget	24.2%	10.3%	33.3%	18.5%	11.2%	0.6%
Buying entertainment durables, like TVs	21.4%	8.2%	33.4%	26.7%	7.4%	1.6%
Buying durables like washing machines	19.3%	10.7%	33.3%	26.2%	8.2%	1%
Deciding on holiday destinations	20.6%	6.1%	28.4%	31.8%	4.5%	5.6%

"It is very difficult to survey this group by using traditional methods," says Jeremy Nye, BBC World's head of research, in the study. "However, it is important to know the tastes of these professionals who will be shaping India's destiny."

Adds Dezma De Mello, research manager, BBC World: "All the individuals in this class are rather alike. They have similar opinions, attitudes and beliefs."

The study showed the emergence of certain definite trends in the area of just who decides what. For example, the person in question seemed to play a major role in deciding the monthly budget or whether to take a loan, but when it came to deciding whom he should marry, it was still the older people in the family who played a key role.

Both the husband and the wife jointly decided on issues like the marriage of progeny. In a majority of cases, the whole family got together to decide what kind of house to buy and where to go for a holiday.

Alcohol consumption habits indicated that 25 per cent drank alcohol, of which 72 per cent were beer drinkers. Most executives drank at bars and pubs, while self-employed professionals drank at friends' homes. Businessmen preferred parties to have a drink or two at.

The research has an entire section focusing on travellers as a separate target audience. This is the first time that anyone has studied consumer behaviour in this area in such depth.

The study tries to understand the travelling habits — such as the mode of transport, kind of holidays, choice of place, and media consumption while travelling — which will be different from normal household viewer-ship.

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The survey sets forth several interesting findings in this area. Sixty per cent people take a holiday in India, while 5 per cent take a holiday abroad. Eighteen per cent travel on business within India, while 8 per cent travel on business abroad at least once in a year.

As for international holidays taken in the last one year, people from Mumbai (30 per cent), Bangalore (35 per cent) and Hyderabad (26 per cent) preferred travelling to the United States, while 35 per cent from Kolkata and 41 per cent from Chennai travelled to Singapore.

A quarter of the respondents from Delhi went to Nepal for a holiday. Among domestic business travellers, Jet Airways (60 per cent) is the preferred airline, followed by Indian Airlines (53 per cent) and Sahara Airlines (20 per cent). For domestic leisure travel, Jet Airways and Indian Airlines enjoy an equal share.

Among international leisure destinations, Singapore is the favourite with 23 per cent respondents, followed by 22 per cent opting to visit the US. International business travellers prefer the US (24 per cent) followed by Singapore (23 per cent) and the United Kingdom (13 per cent).

Interestingly, people in the six metros surveyed seemed to show entirely different tastes in watching television. The average number of channels watched was five and an average of 100 minutes of television is watched a day, with 30 minutes devoted to news.

News and sports are the most preferred programme genres, followed by general entertainment. However, 29 per cent of the respondents in Delhi preferred news channels, while only 14 per cent of those surveyed in Bangalore preferred news. Bangaloreans preferred watching sports, with a high of 34 per cent.

Question:

How has the role of women in decision making changed over the years?

Answer: Traditionally, many of the cultures around the world have been patriarchal, led and run by men. It's only over the last hundred years or so that significant changes have occurred in terms of women's equality. While men and women have different needs and desires, as well as differences in decision making, it is well recognised that having them work together to make decisions keeps very satisfactory results all around. Over the years, women have started contributing in decisions that were earlier taken alone by men like buying banking services, property, durables, holidays, children's education, etc. Some buying decisions are made by women by herself, like buying mobile phones and SIM card, credit cards, car rental services, house-keeping services, educational services, etc.

Some studies have revealed an increasing number of cases where the role of women in the family decision making is primary or at least shared equally with the men. Their role in controlling family finances and making decision as to where the various expenses should be incurred has come to the forefront with researches depicting 37 per cent men dealing with the same individually, 28 per cent with their wives and 30 per cent solely controlled by women.

Women, today, are not just passive recipients of toothpaste and ready-made dinners. Women are powerful and have a powerful role to play.

3.3.8 Post-purchase Behaviour and Feelings

This reaction takes place during and after the purchase and usage. The customer has two types of reactions: pleasure and pain. When the service delivery is below expectation, the customer is disappointed, dissatisfied, and experiences 'pain'. He is literally pained at the poor service delivery.

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If the service delivery is as expected (different from 'promised') by the customer then the customer is satisfied. But if the service delivery is beyond expectation, the customer is 'delighted'. The service marketer should concentrate all his attention on customer delight to retain the customer – which is 3 to 4 times less expensive than customer acquisition.

But sometimes, the customer by his intrinsic nature as well as the nature of the service offer has doubts and anxiety over the purchase. It could come by comparing the service offer that he has paid money for with those that others had experienced (for example, comparing holiday experiences). He might have doubts about his purchase decisions as he is still experiencing the service (a legal consultation). These consumers require reassurance to reduce their cognitive dissonance or 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 this tension and anxiety by giving guarantees, having help-lines through call centres, CRM systems, etc. Advertisements should underscore the satisfaction that customers feel after the service transaction (a kind of vindication).

Self Assessment

Fill in the blanks:

9. A well decorated Vodafone Mini store attracts many customers. Here, it is acting as a ……cue.
10. For filing your income tax returns you need a Pan card. This type of demand is called……..demand.
11. You go for a hair-cut but after getting it all done, you feel that you looked better previously. You are going through……
12. Hair dressing can be called a …… as the result may lead to greater satisfaction or dissatisfaction.
13. Brands that come to your mind and those you recognize during the purchase are called the …… set.

3.4 The Purchase Process and Buying Situations

It is not mandatory that all customers will follow all the eight steps of the decision-making process all the time. Those customers who are familiar with the service offer and the brand are in the Routinised Response Behaviour or Straight Re-buy situation of Howard and Sheth - and they will not be following the whole sequence. For brand-loyal, low-involvement, daily-necessity service offers (getting wheat ground to atta, a routine hair cut for men or going for a telephone service like "Ask Me") they will go straight to the decision stage after the need recognition stage.

If the customer is confronted with a Limited Problem Solving or Modified Re-buy situation as described by Howard and Sheth, then they will begin with evaluation of alternatives and features after need recognition (going for an extra hair or face treatment in a beauty parlour).

But if the service offer is completely new to the customer, the situation that he faces is New Task, Critical or Extensive Problem Solving as explained by Howard and Sheth. The customer goes through all the steps of the decision-making process. He becomes highly involved and takes a lot of time and energy in information search as well as to take in the purchase decision of purchase, acquisition and consumption. In services, unlike goods, this happens most of the time.

Notes

The service marketer should try and make all the purchase situations routine, and low-involvement, with branding exercises, guarantees all enhancing product reputation. They should aim to reduce perceived risk in the offer. The service marketer should increase customer loyalty by giving close and personalized attention to the consumer, as frequency and familiarity of purchase will reassure the customer, make him less anxious and involve him in the purchase process. Retailers thus seek to increase store loyalty, by stressing on convenient location and time, store ambience and atmospherics and providing value added, optimum service.

Self Assessment

State whether the following statements are true or false:

14. The service marketer should try and make all the purchase situations routine.
15. If the service offer is completely new to the customer, the situation that he faces is routine task.

3.5 Summary

- The four traditional Ps of the marketing mix – product, place, price, and promotion are adequate for marketing a product but they are not enough to market a service.
- For services marketing, the strategists have suggested an extended mix which includes people, process and physical evidence, in addition to the other Ps.
- Services have special characteristics like perishibility, intangibility and inseparability, which distinguish them from goods. People, process and physical evidence play a greater role in the marketing of services than in the marketing of products.
- Marketers have identified three levels in developing the product element of the marketing mix as far as services are concerned- core level, augmented level and tangible level.
- The pricing of services is very different from the pricing of goods for various reasons. Services for example, can be differentiated based on their price, as a higher price is generally associated with better quality. Another differentiating factor between services and goods as far as pricing is concerned, is the cost component involved.
- Service consumers experience a high level of perceived risk when compared to consumers of products because of the intangible nature of services. Service providers should aim to promote their services in order to eliminate the elements of this perceived risk.
- Due to the inseparability of services, they are produced and consumed at the same place. This inseparability of services makes it impossible for service providers to produce the service at a place where the costs are low and sell it at a place where there is a high demand for it.
- Many service organizations involve their personnel both at the point of frontline delivery and during the production process that does not involve the final consumer. Many services involve consumers as co-producers in designing the service offering to suit their individual preferences.
- The production and delivery process in the manufacturing sector is easier than in the services sector. Marketers of services are often confused, as there is little difference between marketing and operations management in services. This is because the production, delivery and consumption of services take place simultaneously.

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- Service customers experience a greater perceived risk as they cannot rate a particular service until it is consumed. Therefore, service providers should try to attach an element of tangibility to their service offering.
- Customers find themselves in different buying situations, from purchase to purchase and service transaction to service transaction.
- The consumer goes through several steps while making a service purchase decision: need arousal, recognition of the need, level of involvement, search for information, identification of alternatives, evaluation of alternatives, purchase decisions, purchase actions and other decisions, and post purchase behaviour.
- It is not mandatory that all customers will follow all the eight steps of the decision-making process all the time. Those customers who are familiar with the service offer and the brand will not be following the whole sequence.

3.6 Keywords

Augmented Product: involves the addition of supplementary services to the basic offering.

Core Product: aims to satisfy important needs of consumers.

Consideration Set: brands that are suggested by others.

Cue: commercial or social stimulus that arouses a need.

Drive: physical stimulus that arouses a need.

Evoked Set: brands that a consumer recognizes and considers during purchase.

Extensive Problem Solving: high involvement problem solving process.

Limited Problem Solving: there is a small amount of problem solving for the customer.

Physical Evidence: adding tangibility to the service offering.

Routinised Response: repurchase of the same service offering time and again.

Service Encounters: actual interaction between the service provider and the customer.

Tangible Level of Product: manages the appearance of the product.

3.7 Review Questions

1. Do you think that the argument of some theorist that the traditional Ps are not enough for services marketing is valid? Give suitable examples to prove your point.
2. "It is easy to differentiate products from one another when compared to services". Why?
3. "Promotion of service offers cannot be carried out in isolation without promoting the service provider". Comment
4. Explain the importance of service personnel in the entire service process.
5. Suppose you are the marketing head of a banking firm. What steps will you take to minimise customer's perceived risk?
6. Discuss the types of buying situation that you face in your life. Give examples from your experiences.
7. As a marketer for a tour and travel company, how can you play with cues to attract customers? Can you also control drive?

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8. Why a service marketer should prevent customers form making comparisons? Explain with examples.
9. Do you think self-image and ego has something to do with brand selection? Why or why not?
10. Explain the concept of cognitive dissonance. What you can do to reduce it?
11. Suppose you want to open a student's saving account with a bank. What is your decision making process likely to be?
12. Why a marketer wants that consumers should not follow the eight step sequence for purchase? What all he can do to ensure this?

Answers: Self Assessment

1.	True	2.	False
3.	False	4.	True
5.	True	6.	a
7.	c	8.	b
9.	Commercial	10.	Secondary
11.	Cognitive dissonance	12.	Critical incident
13.	Evoked	14.	True
15.	False		

3.8 Further Readings

Books

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US

Valarie A Zeithmal and Mary JO Bitner, *Services Marketing: Integrating Customer Focus across the Firm*, Tata McGraw Hill, New Delhi

Online links

www.learnmarketing.net/servicemarketingmix

acru.tuke.sk/doc/CME_Present/BB_Marketing

jobfunctions.bnet.com/abstract.aspx?docid

www-rohan.sdsu.edu/~renglish/370/notes/.../index.htm

www.emeraldinsight.com/Insight/ViewContentServlet

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Unit 4: Customer Expectations and Perceptions of Services through Marketing Research

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Objectives

After studying this unit, you will be able to:

- State the scope of marketing research in services
- Analyse the customer expectations and the factors that affect the customer service expectations
- Realise customer perceptions and the factors that affect the customer perceptions
- Know how service marketers influence customer expectations and perceptions through marketing research

Introduction

Over the past few years, marketing of services has picked up pace and became popular worldwide. Service organisations largely compete on the basis of the quality of service provided by them. While some companies successfully deliver quality service to their customers, others are just clueless. Providing quality service is based on a service organisation's understanding of customer expectations and its willingness to meet or exceed these expectations.

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Marketing Research is the process of systematically and objectively identifying, collecting data on the environment and the market and translating them into information that can be used by marketers to make better quality decisions. The service marketer uses this knowledge-based information to find out the customer expectations and perceptions, and design his marketing programmes.

In this unit, you will learn what are customer expectations and perceptions and how marketing research can be used to analyse them.

4.1 Marketing Research and the Service Firm

Marketing research is a necessary and useful analytical tool for service firms for the following reasons:

"Keeps in touch": With geographical expansion of its market, a service firm resorts to the intake of intermediaries like agents, franchisees, retailers and BPOs, and in the process, the company "loses touch" with its customers. It is the intermediaries who are in regular touch with the customers; and even they are hardly in touch with the potential customers. Marketing research then helps the service firm to "keep in touch" with the present and potential customers.

Example: SOTC, the outbound tour package company began as a one-shop outlet from then Bombay, during the fifties. The owners were in direct contact with its customers and were able to tailor their products uniquely to satisfy their customers. With success came the desire to expand - geographically as well as in operation terms. They were thus forced to take on intermediaries like Travel Agents and franchisees. Now it were the latter who were 'in touch' with the customers, not SOTC. They would therefore resort to MR to know the changing customer preferences as well as about the marketing mixes.

Perceptual Veil: Success might breed arrogance in a service firm and they might suffer from marketing myopia. They then may not perceive the real needs of the customers. This blindness also comes when a successful service firm has many layers and tiers of management and the market information has to go through all of them, leading to a distortion of the message. This 'Chinese whisper' effect is sought to be avoided by the regular usages of marketing research.

Notes A leading public sector bank had many denominations in its Traveller's Cheque (TC). But it was noticed in a research of the internal records of payments and cancellation of unutilised TCs that most of the latter were of ₹ 100 denomination. The ₹ 100 denomination was therefore recommended for non-issue. Since everything was a 'holy cow' in the mentality of the public sector, all officers rejected the proposal as it progressed up the ladder - till it reached the Chairman. He was essentially an outsider, an erstwhile bureaucrat, holding the post of Secretary in the Ministry of Defence Production, before taking up the chairmanship of the banking behemoth. He dispassionately recommended its non-issue, which was quickly agreed upon by all other junior functionaries. The whole journey of the proposal up and down the hierarchy level took over a year. There were more than ten layers through which it had to go - distorting the main view-point and delaying the decision making process.

Minimizing Risks: With intensification of competition and inter-firm rivalry, it has forced most service firms to come out with high voltage marketing. This has inflated the costs of marketing-be they in new product development, pricing strategies and tactics, promotions or distributions. In other words, the costs of marketing failures and mistakes - in terms of opportunity costs and

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lost - have gone up astronomically. Marketing research has greatly helped service firms to minimize such risks.

Growing customer expectations resulting in expanded markets: With changing socio-cultural mores and sanskritisation (upward mobility of consumers in income and status) there is a growing need of services.

Example: Cell phone service, which when it was introduced in India in the mid-nineties was dismissed as socialites' prerogative but which has more subscribers today than landline communication.

Globalisation, on time communication through satellite television channels and the Internet, and increasing foreign travels have exposed the customers to world class brands and service concepts - and the Indian consumers want nothing less. Marketing research has helped many a service provider in anticipating the quantum and the type of service product desired. Mall concept is one such example, which have benefited from continuous consumer research.

4.1.1 Scope of Marketing Research in Services

Marketing research covers a wide range of subject – from people issues to marketing processes and the services environment. Some of them are:

Research of Services Environment like the Political and Socio-economic Factors: The studies of the services environment factors would include the political, economic, socio-cultural, legal and technological, etc. This analysis would give the service manager a guiding template for doing business. They are those factors that no service manager can ever control or influence. He or his service firm has to adapt to these environmental factors and deliver their service within their framework.

Example: Metro Cash and Carry, the giant German retailer would have made a SLEPT analysis before making its entrée into India, as foreign retailers have not yet been permitted to function in a full-fledged manner. So it is now working under a very restricted format not dealing with customers but with retailers and wholesalers. Its huge power (it is a $54 billion retailer) has already raised fears from established players about the crushing competition.

Research into Customer Needs: This will help the service marketer to know his different needs, especially his latent needs, and develop new service products.

Example: Gujarat based Lalbhais who are into textiles (Arvind denim) would have made an attempt to find out the latent needs of the urban and upwardly mobile Indian parents for a high quality pre-school institution, before venturing into Eurokids, their successful education franchise.

Research into Customer Expectations: Expectations make a customer perceive the received offer in a judgmental mode. This is due to the intangibility factor of the service offer. Variance between the expected offer and the service receipt will generate 'problems', dissatisfaction, etc. This particular research would enable service providers like Sahara Air to know customer expectations and attempt to provide those services, bridging the quality gap.

Customer Perception Studies: Quality in service is as perceived by the customers. Thus perception studies can be undertaken before or after the experience or consumption of the service offer. This is the only way for a market-driven service firm to measure the quality of its offer.

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Benchmarking Studies: If a service firm is desirous of the highest of quality and adopting the best of practices then it does not restrict itself in studying or comparing companies in its own industries. It tries to learn by researching about the operating methods of unrelated areas and replicating them in their own organisation.

Example: A service firm can study a hospital's hygiene and housekeeping system, a hotel's customer (or 'guest') care, a courier firm's speed and accuracy of delivery, etc. - and adopt them itself.

Service Distribution Studies: The marketing research would entail studying the effectiveness of all possible type of distribution system - for example, direct versus franchising versus the usual wholesaler-retailer-dealer network. The intermediaries like dealers, retailers, agents, etc., as mentioned in the previous sections, are the ones who are "in touch" with the customers. Therefore, a research on them would give the service marketer an authentic insight into the customer. The intermediaries are also, in turn, the recipients of service of the firm and therefore their perceptions are a window to the service delivery standards forming a major part of any satisfaction survey. Thus a research on the intermediaries will give the service marketer an insight into the customers' expectations as well as on their own service towards on the channel members.

Pricing Research: This research is done on the different pricing methods that a service marketer has options of adopting. The research tries to help the service marketer to fit the appropriate method to the objective of the organisation.

Promotion Research: Promotions are the broad communication tools at the disposal of the service marketer to reach out to the customers. They include advertising, public relations, sales promotions and personal selling. Each has their respective strengths, weaknesses and effectiveness.

Example: Microland's Pradeep Kar would have pondered on the best form of communication for indya.com's grand entrée. A promotion research would have given him the cost-benefit of each of them. He chose to take out a full page (or even a solus) advertisement on the 1st of January 1999 in The Times of India. The innovative and novel format, a first by any standards, created waves and certainly helped his web portal to be noticed: it was a front-page advertisement. It was possible that for the same effort and price, a public relations campaign or personal selling would not have garnered the same introductory 'hits' so quickly. A research on the appropriateness of the promotions, thus, is very necessary before the service marketer designs his communications strategy.

Communication Research: Although this research comes under Promotion research, it is comprehensive enough to merit separate nomenclature. This consists of mostly advertising research (sample respondent's reactions to various pilot advertisements), media research, panel survey, etc.

Key Client Analysis: A Pareto or an ABC Analysis of a service firm's customers would reveal that 80% of them contribute only 20% of its revenues or profits; 80% of the revenues or profits are generated, most of the time, by only 20% of its customers. This would make it imperative for the service firm to give differential treatment to those customers who are key important to its profitability and direct exclusive service for them. Without such research, a service firm may be unaware of important and key clients. If the latter tends to be dissatisfied and pulls his business elsewhere, the loss could be extremely damaging for the service firm.

Panel Studies for Customer Satisfaction Indices and Brand Tracking: Certain groups of respondents, who are a fixed sample, are chosen for continuous research over a long period of time. They are called a panel and such research is called longitudinal studies.

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Case Study

APNAGHAR – Feed forward and Feedback

The promoters of Koop Services, a two-store retail outfit in two respective suburbs of Mumbai, were at a crossroad. They had, in 1999, taken the franchise of Apna Bazaar, a well-known cooperative retail chain of general merchandise in Mumbai, for two locations: Nerul, Navi Mumbai and Thane. After successfully establishing a modern superstore format, they had a dream three year run and were able to grow with the two suburbs. With a turnover of around ten million rupees in each of the two stores, the franchisees were out performing every one of the other 60 outlets of Apna Bazaar. Additionally, they became known for offering better service and more varieties and categories of merchandise than the franchiser – which usually included groceries, FMCG, homecare, utensils, etc.

Koop Services realised that they had outgrown in scale and scope of the Apna Bazaar concept – one of those rare cases where the franchisee seem to have raced ahead of the franchiser – and the normal schisms of partnerships were showing. They were facing the classic disadvantages of the franchising system that inhibits the entrepreneurial and innovativeness of the franchisee, chaining him to the rigid mother format. While Koop wanted to travel up the value chain and go in for upmarket brands, merchandise and other services, Apna Bazaar, the franchiser, insisted that they were straying from their tried-and-tested segment of middle-class and lower-middle class and that they should stick to their original format. Koop had information through marketing intelligence that Apna Bazaar people were scouting around both the suburbs for space, locations and franchisees. Koop also realised, with growing anxiety, that their three year franchising contract was drawing to a close and if they did not renew their contract – which implied compliance – then more Apna Bazaar stores would crop up at Nerul and Thane.

Koop Services had to quickly find answers to the following questions:

- Should they continue to use the name of 'Apna Bazaar' - which was synonymous in Mumbai with value shopping – for their superstores or drop it?
- If they did drop the name, what would be the reaction(s)/response of the people in the catchments area of the two respective stores?
- And, if they did go for a name change, what would be the most appropriate christening? The new name should convey more value benefits, the correct strategic intent of the promoters, minimizing any negative feelings that might arise due to the name change in the minds of the consumers of the stores.
- But more important for Koop was to know whether the format that they had evolved was what the consumers of Nerul and Thane would prefer and continue to patronize - and not those of Apna Bazaar or any other wannabes. They realised that the Indian shopper was a very canny species who constantly looked around for value benefits and his loyalty could not be taken for granted. The last was especially true for a retailer who had no tangibles for differentiation other than his shopping experience and value benefits. Everything else – retail format, store design layout, merchandise varieties and assortments – could be replicated.

One thing that the promoters of Koop Services agreed on was that they had a long-term commitment to the retailing business and firmly believed in the modern superstore model. They required answers to many other questions, which they felt would help them in fine-

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tuning their retail format, differentiate their shopping experience from others, evolve newer services and retain the profitable customers. From an academic point of view, they also wanted to know the details of all types of competition - direct, indirect and substitute – and the psychographic rationale for the continuing patronisation of the small 'kirana' stores which were located in the ground floors of every teeming multi-storied building of the suburbs.

Questions:

1. Was it very necessary for Koop to find systematic answers to the above questions - and then take decisions? What could be the consequences if Koop took decisions by gut feelings or on the weight of their experiences?
2. How do you think should Koop Services go about finding the answers to the above questions that would help them take decisions, which were turning out to be very crucial to their survival?
3. What can be the reliability of such 'scientific' and 'systematic' studies, based on which management can take decisions with confidence?

Source: C Bhattacharjee, *Services Marketing: Concepts, Planning and Implementation*, First Edition, Excel Books, New Delhi

Self Assessment

Fill in the blanks:

1. A service firm services its customer really well and it works on the principle of current satisfaction maximisation. This firm might be suffering from……
2. A service firm is losing its customers to competitors, but can't find out the exact reasons for their switch over. In this situation …….can come their rescue.
3. Expectations make a customer perceive the received offer in a …… mode.
4. …… of a service firm's customers would reveal that 80% of them contribute only 20% of its revenues or profits.
5. In a …… study, certain groups of respondents, who are a fixed sample, are chosen for continuous research over a long period of time.

4.2 Understanding Customer Expectations

Customer expectations plays key role in a company's success. They have a deeper meaning in services marketing than being mere requirements of a customer. They may also involve customers' predictions of what will happen in a service encounter or what the customers desire to happen. Customer expectations are based on customers' experience with the product or service; feedback received from friends, colleagues, and relatives; or may be based on their present needs.

Customers do not expect service providers to fulfil all their requirements but only that they deliver what they have promised. They want to get a fair deal for the price they pay for the service.

Example: Insurance customers often find that most of their requirements are not met by insurance policies due to exclusion clauses. This tends to confuse the customers as to what is actually covered by the insurance policy.

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However, such gaps in service delivery give service providers numerous opportunities to improve their service standards and meet customer expectations.

Customer service expectations can be measured along five dimensions of service quality: assurance, empathy, reliability, responsiveness and service tangibles. Except for the dimension of reliability, which is associated with the service outcome, all other dimensions are associated with the service process.

Rater

The five dimensions are:

1. ***Reliability:*** This refers to the ability of the service provider to accurately perform the promised service. This dimension of service quality conveys whether the service provider keeps his promise regarding the efficient delivery of service, handling of customer complaints, pricing and so on.
2. ***Assurance:*** It is the ability of the service provider and his employees to use their knowledge and courteous behaviour to instil crust and confidence in customers regarding the service.
3. ***Tangibles:*** This dimension of service quality refers to those elements, which provide tangibility to the service and include physical facilities, equipment of the service provider, dress and appearance of the service personnel.
4. ***Empathy:*** It refers to the service provider's ability to show concern for customers and devote individual attention to each customer.
5. ***Responsiveness:*** It refers to the willingness of the service provider and his staff to provide assistance and prompt service to customers.

4.2.1 Service Expectations

To deliver quality service, it is essential to understand customers' expectations. To assess the quality of service, customers compare their expectations with their perception of the service provider's performance. If service providers want to gain customers' loyalty, they should constantly meet customers' expectations by performing consistently. Wrong interpretation of customers' expectations will cost the service provider heavily. Therefore, service providers should take due care to minimize lapses in meeting customer expectations.

Customer expectations of service can be of two types: desired service and adequate service.

Desired Service

It is defined as the service that a customer desires and hopes to receive. In other words, the desired service expectations of a customer are a combination of what he/she feels that a service provider can offer and should offer. Customers are delighted when service performance exceeds their desired service expectations. Desired service expectations of a customer increases when the customer is experienced and has good knowledge of what to expect in the service.

Example: An executive who has travelled to many places on business and stayed in various hotels is experienced in receiving services of a certain standard.

Thus, he desires and expects to receive a certain level of service at every hotel he stays in and is likely to evaluate the hospitality offered at each new hotel on those parameters.

Notes

The desired service expectations of a customer may also depend on the service expectations of an associated party. The associated party may be a customer of the customer himself.

Example: In the case of supply of food by a hotel to an airlines company, the airlines demands superior quality food to be delivered by the hotel because customers of the airlines expect to be served food of superior quality on the flight. In this case, the hotel is the service provider, the airlines company is its customer and the passengers travelling by the airlines comprise the associated party.

The associated party may also be someone superior to the customer and to whom he is answerable.

Example: Consider the case of an HR manager hiring the services of a particular consultancy to take care of recruitment in the company. In this case, the service provider is the consultancy and the customer is the HR manager. The desired service expectations of the HR manager are based on the service expectations of the top management of the company, since he is answerable to them regarding the quality of recruitment in the company.

However, it does not always happen that the desired service expectations of a customer are met or exceeded by the service delivered by a service provider. Often, customers have to compromise on their service expectations and accept an adequate level of service, which is slightly lower than the desired level.

Caution Sometimes customers also enter into a SLA with the service providers. An SLA (Service Level Agreement) is a document that describes the minimum performance criteria a provider promises to meet while delivering a service.

SLA typically also sets out the remedial action and any penalties that will take effect if performance falls below the promised standard. It is an essential component of the legal contract between a service consumer and the provider.

Adequate Service

Adequate service is the minimal level of service that a customer is willing to accept from a service provider and is based on the customer's perception of what level of service is acceptable to him. Customers are dissatisfied if the service provided by a service provider does not meet the adequate service level expectations.

A customer's expectations of adequate service change with his perception of the available alternatives for the particular service. Customers' expectation of adequate service increases in situations of an emergency.

Example: Train commuters in large cities such as Mumbai; tend to get frustrated at even the slightest delay in the arrival of local trains when they need to move fast. However, when there is a service failure during heavy rains, the commuters are willing to accept even the minimum service that is available. That is, when there is a service failure, the adequate service level decreases or comes down.

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Zone of Tolerance

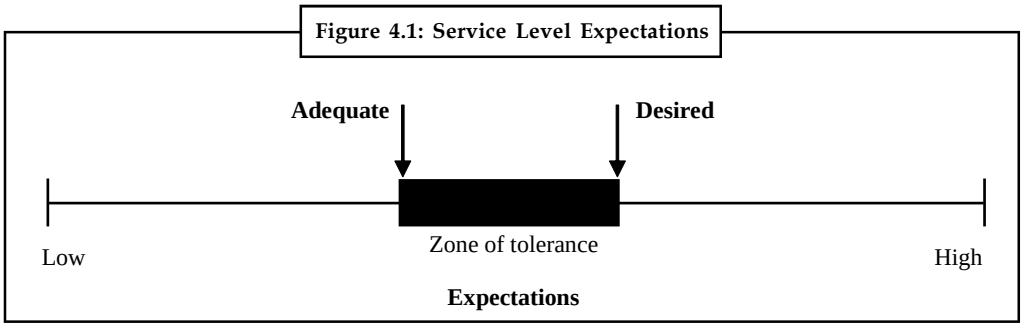
It is the gap between customer's desired service expectations and the adequate service expectations as shown in Figure 4.1. This zone varies for each customer and for the same customer it differs in different situations. Customers view reliability as the core dimension of any service transaction and are not ready to compromise on reliability. Therefore, their zone of tolerance on the dimension of reliability is narrow. It is also narrow when customers have various service alternatives available.

Example: If we take the earlier example of Mumbai local trains, the zone of tolerance narrows down when the commuter is in a hurry and the zone widens when there is a service failure.

Predicted Service

It is the level that lies between the desired and the adequate service level of a customer and is known as the zone of tolerance.

Figure 4.1: Service Level Expectations



4.2.2 Factors Influencing Customer Expectations of Service

Service providers should have knowledge of the factors that influence customer expectations of service. These factors can be studied under various heads, namely factors that influence customer expectations of desired service, factors that influence customer expectations of adequate service and lastly, factors that influence both desired and predicted service expectations of a customer.

Factors Influencing Desired Service Expectations

Customer needs and enduring service intensifiers largely influence customer expectations of a desired service.

Customer Needs are the needs represented in Maslow's hierarchy of needs. Customers differ in their expectations of desired service depending on their most vital need.

Example: If a customer who is hungry and another who is thirsty enter the same restaurant, their desired service expectations differ based on their most important need at the moment. While the customer who is hungry expects the waiter to immediately serve him the food he orders, the customer who is thirsty expects the waiter to first serve him some cold water to drink.

Enduring Service intensifiers are of two types, namely, derived service expectations of a customer and his philosophy regarding the service.

Notes

Derived service expectations of a customer are in turn influenced by the expectations of those who are dependent on the customer to provide them with a good service experience.

Example: Consider a situation in which an office outing has been arranged with the administrative officer being responsible for making the travel and food arrangements. The administrative officer's expectations of desired service from the travel and the catering company will be based on the expectations of desired service of every member going on the outing.

Customer's Philosophy regarding a service has to do with the customer's attitude, and the service provider's conduct. A customer's philosophy regarding the service tends to be stronger if he is in some way associated with the service industry. This association of the customer may be in the form of either being employed in the service industry or having worked in the service industry in the past.

Example: A retired banker knows more about the service standards in a bank and his service philosophy is stronger compared to other customers who do not have such a strong association with the banking industry.

The desired level of service expectations of customers increases when their personal service philosophies are high. A lot also depends on the internal customers or the people within the service organisation. The output of the internal customer is directly linked to the level of service provided by the organisation. Depending on these, the customers form attitudes towards the service providers.

Factors Influencing Adequate Service Expectations

Customer expectations of adequate service are influenced by various factors such as transitory service intensifiers, perceived service alternatives, customer self-perceived service role, situational factors, and predicted service.

Transitory Service Intensifiers are the factors, which intensify or heighten the level of adequate service expectations of customers. These factors include personal emergencies, failure of a service provider to offer quality service the first time, or factors that push customers to take the help of a service.

Example: Suppose a customer who is very hungry decides to try the service of a home-delivery provider of pizza who claims to deliver a pizza anywhere in the city limits within 20 minutes. However, the pizza is delivered at the customer's doorstep an hour after he has ordered for it and that too, with a topping different from the one he had ordered. The first-time service failure by the pizza home delivery service will increase the service recovery expectations of the customer the next time he orders a pizza from the same service provider. This time, the customer will expect the service provider to deliver the pizza of his choice within the promised time.

Consider a situation where a customer wants to purchase medicines urgently on his credit card and the credit card company refuses to give acceptance though there is credit amount available on the card. This will raise the adequate service level expectations of the customer.

Presence of transitory service intensifiers reduces the zone of tolerance and increases the adequate service expectations of a customer.

Perceived Service Alternatives include customer perceptions of available alternatives that offer similar service. The adequate service expectations of customers increase when they think that there are alternatives available to fulfil the need.

Notes

Example: A customer in a big city who needs a loan to buy a house knows that he can get a loan from any of the nationalised or private banks or housing finance companies in the city. Hence, he will have high adequate service expectations than a customer who lives in a rural town with only a nationalised bank providing the requisite service.

A Customer's Self-perceived Service Role also affects his/her adequate service level expectations. The self-perceived service role of a customer is the extent to which the customer perceives he is capable of shaping the service encounter and influencing the level of service he receives from a service provider. A customer is likely to have high expectations of adequate service if he plays an active role in making the service provider aware of his service expectations. Further, the customer's expectations of adequate service are likely to be high if he perceives that the service provider is wholly responsible for providing a good service encounter and that the customer has no role to play in it.

Example: A young girl who has knowledge in designing bridal dresses will actively participate in designing her own bridal dress and her adequate service expectations are high. Later, if the dress is not done according to her expectations, she will be very dissatisfied due to the active participation she had shown to ensure a good service delivery.

However, despite receiving a bad service, a customer may or may not complain about it. If the customer has a low zone of tolerance and high expectations of adequate service, he will complain about the bad service, otherwise he will not.

Situational Factors are the factors, which make a customer compromise on his adequate service expectations on learning that the conditions of service delivery are not under the control of the service provider.

Example: Consider a situation in which there has been a power failure in some parts of the city as a result of which a cable service provider is not able to beam his programs. In such a situation, the zone of tolerance of the customers of the cable service provider increases and their expectations of adequate service reduce since the customers too understand that the supply of power is not in the service provider's control.

Predicted Service Expectations of a customer can be defined as the level of service a customer believes he will receive from a service provider.

Example: A customer who expects that a flight may be delayed due to bad weather will have a lower level of adequate service expectations.

Factors that Influence both Desired and Predicted Service Expectations

In addition to the above-described factors, there are also some factors that influence both desired and predicted service expectations of a customer. These factors include explicit and implicit service promises, word-of-mouth communication, and past experiences.

Explicit Service Promises are the statements made by a service provider in which he explicitly promises to provide a certain level of service. Explicit service promises made by a service provider through advertisements, personal selling, brochures and so on, heighten the desired and predicted service expectations of customers.

Example: Dominos Pizza promises to deliver fresh and hot pizzas at the customer's doorstep within 30 minutes of placing the order.

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Implicit Service Promises: Implicit service promises are not explicit statements made by a service provider but are tangible clues that give a customer an idea of how the service will be. Tangibles related to a service are in the form of personnel of the service provider, process, and physical evidence.

Example: The price that is set for a Taj Holiday package serves as an implicit service promise by the hotel group. Through its pricing, the Taj group promises to deliver to the customer, his/her money's worth and influence both desired and predicted service expectations of the customer. The customer desires service that is commensurate with the pricing of the package. In addition, customers predict to receive service of a particular standard due to the high price associated with it.

Word-of-mouth Publicity: These include views or opinions of customers who have already used the service, or surveys conducted by experts.

Example: The positive or negative opinion given by friends or relatives about a travel agency will influence a customer's desired and predicted service expectations.

Past Experience: A customer's past experience influences his current expectations of service.

Example: A customer who has visited a McDonald's outlet in New York, USA will desire and predict to receive service of the same standard at a McDonald's outlet in Mumbai, India.

4.2.3 Managing Customer Service Expectations

Service organisations should learn to efficiently manage customer expectations to gain a competitive advantage. The following measures can help service providers manage customer expectations:

Managing Promises

The first step in managing customer expectations is to manage the promises made by service providers. In order to successfully meet the service expectations of customers, service companies should promise only what they are confident of delivering rather than making promises which are difficult for them to fulfil.

Example: Consider the case of a courier company that claims it can deliver consignments anywhere in the world in three working days but messes up on a certain consignment by not only failing to deliver it within the stated time but also losing the contents of the package in transit.

This gives the customer sending the consignment, a very unpleasant service experience because of the failure of the company to deliver what it promised.

Did u know? Some service providers intentionally under-promise the service to exceed customer expectations at the time of service delivery.

However, this kind of practice will reduce tile competitive attractiveness of the service. On the other hand, over-promising will increase tile customers' expectations beyond the company's ability to meet them. Therefore, firms should make an honest representation of their capacity to

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deliver the service through explicit means such as personal selling and advertising, and implicit means such as price of the service and appearance of the service facilities.

Reliability

Customers give importance to reliability over the other four dimensions of service. Firms that fail to deliver reliable products or services tile first time, fail their customers directly. Studies show that the service expectations of customers increase at tile time of service recovery. When there is a service failure the first time, a customer's zone of tolerance decreases. Hence, during service recovery, customers' expectations of desired and adequate service increase for both the outcome dimension of reliability and process dimensions of tangibility, assurance, responsiveness and empathy.

Service organisations should therefore practice to deliver the promises made to the customer, correctly the very first time. Further, they should emphasize and design their service operations in a way that they reflect the outcome dimension of reliability during tile customer's first service encounter.

Communicate Effectively

Companies should communicate effectively with customers to keep track of their expectations and views about the services provided. Communication can be initiated in two ways, either from the company or from the customer. A service organisation can initiate proactive communication to inform customers about the latest developments in the organisation that will help it serve them better.

Example: Consider a situation in which a hotel has introduced an online booking facility enabling customers to reserve a room through the Internet. The hotel can use its customer database to communicate the information regarding the new facility to all its customers, irrespective of the number of times they have stayed at the hotel. 'This action would delight the customers who stayed at the hotel only once or twice and increase the trust of their regular visitors.

Service organisations can also manage customer expectations by seeking their suggestions or complaints about the service.

Exceeding Customer Service Expectations

Exceeding service expectations of customers is possible only when companies make an effort to know their customers' expectations. Companies should know what their customers would expect from them after their service encounters in the past. Companies can make efforts to exceed the service expectations of their customers by surprising the customers with their exemplary service.

Every customer has some level of expectation from the product and its performance. It is up to the firm to reach at least the lowest point of this level. This concept can be explained in terms of zone of tolerance, which is the level of performance (Refer to figure 4.1). Anything below this level is unacceptable. On the other hand, if the firm can provide a degree of service that is above the desired level, this will result in customer delight (close to the high end of the continuum in figure 4.1) and it typically ensures that the customer will return again and again.

Customer satisfaction or dissatisfaction largely depends on how the service is delivered. Therefore, service companies, which aim to exceed customer expectations, should find ways to delight their customers with their service delivery process. Service companies have an

opportunity to differentiate themselves from their competitors on the basis of the outcome dimension of service, that is, reliability of service delivery.

On the other hand, to gain an edge over competitors, service companies should surpass their competitors in the process dimensions of service, that is, assurance, empathy, responsiveness and tangibles. Process dimensions of service give service providers an opportunity to exceed their customers' expectations and surprise them with their competence, courtesy and commitment.

Task Visit a few service providers like hairdressers, educational institutes, doctors, etc. and ask them what they know about the expectations of their customers. Also ascertain the changes made by them as per customer expectations.

Self Assessment

State whether the following statements are true or false:

6. A bank official fills in all your loan documents without any mistake. This shows that he is reliable.
7. You wish that you get a free head massage with a haircut. This is your desired service expectation.
8. Your attitude towards the service provider's facility becomes a part of enduring service intensifiers.
9. When the service provider exceeds customer expectations, it is the stage of customer delight.
10. You enter a retail store and an on floor executive greets and assists you. This relates to the empathy dimension.
11. The stage above your minimum level of expectation but below your desired expectation is the zone of tolerance.
12. You are very hungry and want to eat pizza. This is a transitory service intensifier that may affect your adequate service expectation.

4.3 Understanding Customer Perceptions

Perception is the process of making a meaningful picture by selectively organizing a set of stimuli. In the marketing of services, perception can be defined as a customer's judgment about the service experience and pertains to the aspects of value of service delivery, service quality and customer satisfaction. Perceptions change over time, differ from person to person, and from one culture to another.

4.3.1 Factors Influencing Customer Perceptions

Customer perceptions of value, quality, and satisfaction are influenced by four important factors. They are service encounter, service evidence, image, and price. These factors are discussed in detail.

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Service Encounters

Customer perception of service quality is primarily influenced by the service encounter. A customer estimates the quality of service throughout his/her interaction with a service provider.

Example: a bank customer's service encounter begins when he approaches the bank officials with queries, and is influenced by aspects such as the time taken to meet the senior officer, or to deposit or withdraw cash, the courtesy of the bank officials and so on. During these interactions, a customer would assess the quality of service offered by the service provider.

Every incident in the service encounter sums up the customer's satisfaction and his intention to repeat business with the service provider.

Generally, researchers believe that the first encounter can be critical in a transaction. If a customer is not satisfied in the first encounter, he may never return to do business with that particular service provider.

Example: if a person who visits an insurance company for settlement of his claim is not received properly by the employees of the company, he may not like to take any more insurance coverage from the company.

However, in a series of service encounters, any encounter can be a critical encounter and will have an effect on the customer's satisfaction or dissatisfaction.

Often, customers evaluate a service encounter on the basis of the amount of care and concern shown by the employees of the service company during the transaction. The speed at which employees respond to customer problems, has a direct impact on customer satisfaction. Further, there is an increase in customer satisfaction if employees of the service company show flexibility in service delivery.

Types of Service Encounters

There are three types of service encounters: Remote encounters, Phone encounters and Face-to-face encounters.

1. ***Remote Encounters:*** Remote encounters do not involve any direct human contact.

Example: ATM machines, telephone answering machines, voice mail service, automated mail order service, and obtaining billing information on an automated service/line.

Customers can estimate the quality of a remote encounter with the help of tangible clues of the service (for example, the air-conditioning and piped music being played in the ATM enclosure or the length of the queue outside it) and the quality of technical processes and systems. Service providers should ensure that the quality of these systems is maintained consistently to avoid the reputation of the company from being adversely affected.

Example: A lot of people book flight tickets on internet on websites like Cleartrip.com and Makemytrip.com. These companies should ensure that the process is not complicated and the process takes lesser time. As the customers have to make inputs individually, proper instructions should be there to help them. The same goes for internet banking and E-commerce websites.

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2. ***Phone Encounters:*** Over the years, the use of telecommunications has increased significantly. Companies have started offering telephonic services like customer inquiry, registration of complaints, taking orders, and reserving tickets.

Example: Service companies like utilities, insurance, telecommunications, and banking are using telecommunication facilities to provide service to customers.

The service quality in such encounters can be estimated on the basis of variables like employee knowledge, tone of voice, and his efficiency or effectiveness in providing the service.

3. ***Face-to-face Encounters:*** Face-to-face encounters involve direct human contact between a service provider and a customer. These types of encounters occur in places like restaurants, banks, and grocery stores. It is quite difficult to evaluate the quality of service in these encounters as it involves assessment of both verbal and non-verbal behaviour.

Further, in face-to-face encounters, customers play a role in the creation of quality service for themselves through their interactions with the employees of a service provider. Here comes in the concept of boundary spanners. Boundary spanners are organisational members who link their organisation with the external environment. Boundary spanning primarily concerns the exchange of information [Daft, 1989]. A boundary spanner is further defined as one who attempts to influence external environmental elements and processes.

Thus, such people should be careful of delivering the right image of their organisation to the external customers. In service encounters, first impressions matter a lot. The saying- "first impression is the last impression", fits near perfectly on service firms. These firms should make sure that they give the best service on the first encounter itself to ensure repeat visits by the customers.

Satisfaction or Dissatisfaction in Service Encounters

Evaluation of the quality of a service encounter will result in either customer satisfaction or dissatisfaction. Some of the factors that affect customer satisfaction / dissatisfaction and influence a customer's perception about the service are discussed below.

1. ***Recovery:*** Recovery is a situation when a service failure has occurred and includes how well the employees of the service provider respond to the situation.

Example: Service failure may include flight delays, failure to obtain a room in a hotel despite making the reservation in advance, and improper service in a restaurant.

Customers too know that it is not always possible to get perfect service. However, it depends on a service provider how he responds and satisfies his customer during service failures.

Service providers should listen to their customers patiently and find out the problem at hand, clearly without any misunderstandings. Further, a service provider should accept his failure, apologize for it and assure the customer of his ability to correct the mistake.

Service providers should also explain to customers how they are going to solve the problem and offer them additional benefits to satisfy them. Such measures reinforce the trust and confidence of customers in a service provider and make them form a favourable opinion of the service.

2. ***Adaptability:*** Adaptability is a service provider's ability to deal with the special requests or needs of his customers. A flexible service delivery system will help the employees of the service organisation to manage these types of requests.

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Example: Adaptability include providing overdrafts on bank accounts, adjusting course schedules as per students' needs, offering special diet to patients on a flight journey, etc.

Customers assess quality of service in terms of flexibility of the service delivery system and that of the employees of a service provider in delivering the service. Such flexibility influences customers to have a favourable perception of the service.

3. ***Spontaneity:*** Spontaneity is the unsought or voluntary action of employees in delivering a service.

Example: Spontaneity includes responding quickly to emergencies, and voluntarily bending rules to accommodate the special needs of a customer.

Voluntary behaviour of employees to help customers will increase customer satisfaction. On the other hand, customers are dissatisfied if service employees ignore them, show discrimination, or behave rudely with them. Spontaneity of a service provider gives rise to a favourable perception about his service.

4. ***Coping:*** Coping is the process of how employees manage problem customers and situations effectively.

Example: Of coping situations include having to pacify agitated and disturbed customers and handling their unreasonable demands.

Such situations may arise when customers themselves are responsible for their dissatisfaction and fail to cooperate with the service provider and with other customers, law, or industry regulations. Employees find it difficult to please customers in such situations. In such situations, the service firm should show empathy. Firms should tell the customers that they identify with their feelings and care about them.

Service Evidence

Service evidence is another factor that influences customers' perception about a service. The intangibility characteristic of services makes customers look for evidences of the service in every interaction with the service provider. Therefore, service providers must manage even the minute tangible clues associated with their service, as customers will have certain perceptions about the evidence of the service on the basis of these clues.

Caution If a service provider fails to manage the service evidence, then there is a possibility that he may unintentionally convey the wrong message to his customers, which will have a negative effect on customer perceptions.

Service Personnel

They play an important role in defining the quality of a service encounter in the mind of the customers. The ability of the personnel to be enthusiastic, friendly, and spontaneous will make the service experience a pleasant one for customers.

Example: Fast-food restaurants such as McDonald's make their service tangible, by hiring people who are friendly and have a pleasing appearance, to serve customers.

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The pleasing and friendly behaviour of these personnel in their interactions with customers enhances customer perceptions of service quality and results in customer satisfaction.

Example: In the case of McDonald's, the uniform colour scheme, the environment, the graphics, dress code of the personnel, and the ubiquitous and familiar golden arches help to make the service element tangible. Another prominent example of a company, which makes service tangible through its personnel, is that of Walt Disney World. The theme park company enforces strict personal grooming standards for all its employees, known as 'cast members'. This helps the company maintain a uniformly pleasant appearance among all its service personnel and give tangibility to the service.

Process of Service Delivery

It involves various steps in the process of delivering a service, and the flow of operational activities. The service process is also evaluated on the basis of the number of flexible or standard policies, and the technological or human modes involved in delivering the service. Processes have been made simpler and flexible with the help of advanced technology. This helps customers have a favourable perception of the service.

Physical Environment

It is the third type of service evidence that creates an impact on customer perceptions. The physical environment consists of the ambience offered by a service provider, and the design of the interiors or exteriors of the service facility.

Example: A couple who want to dine at a restaurant that offers a quiet and serene ambience, would avoid going to a crowded restaurant as they perceive that the restaurant is always noisy due to the large number of people it caters to. The design of the interiors has the capability to give rise to a positive perception about the service. Also people these days like going to malls as they provide a perfect ambience for shopping (and window shopping). The malls are fully air-conditioned with mild aroma filling in the air, sometimes good music too. They are properly lit, spacious and clean. Malls also have proper signages to direct the customer. Overall, they provide a nice shopping experience.

Service evidence supports the marketing strategy of a service organisation by shaping the first impression of customers, managing their trust in the service provider, facilitating quality service, providing a sensory stimulation to customers, changing the image of the service organisation, and instilling the service philosophy in the employees of the service provider.

Shaping the First Impression of the Customer

A customer who does not have any information about a service will look for tangible clues to assess the quality of the service. Customers believe in what they see and form an opinion about the service organisation and the service on the basis of what they see. Further, to many people, the first impression is always the best impression. Therefore, a service organisation should try to use the first impression of customers to communicate its service commitment, competence and service customisation ability.

Example: A person who plans to go on a vacation estimates the various tourist packages available but the tangible clues he observes at the service office playa great role in influencing his decision. The tangible clues can be in the form of physical surroundings of the service facility

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or the display of certificates, plaques and trophies awarded for superior service quality, which help convey the commitment of the service firm to superior service quality.

Managing the Trust of the Customer

Companies try to win the trust and confidence of their customers in order to retain existing customers and attract new ones. Marketing of services is based on trust, as customers have to purchase a service even before experiencing it. A popular method of managing trust is through the money back guarantee. Under this scheme, the firm promises to refund the customer's money if he is not satisfied with the service delivery.

Example: Blue Dart promises to refund money, if customer's parcel is not delivered at the right destination in stipulated time. In addition to increasing customer involvement in the service delivery, this also enhances the trust of the customer in the service quality.

Many restaurants set up a glass pane separating the kitchen area from the service area. This allows customers to view how their food is being prepared in the kitchen. A common practice in several 5-star hotels is that when a customer orders for delicacies like crabs, the chef displays a live crab to the customer to obtain his approval before cooking it.

Facilitating Quality Service

A customer's perceptions of service quality are shaped by a firm's ability to manage the tangible clues of its service. Often, customers form opinions about the quality of service by the way the service is delivered or the processes involved in the service delivery. Firms can enhance the value of their service by trying to attain perfection in the basic aspects of the service like orderliness, customer-friendliness, and cleanliness. In addition, firms should create evidence that appeals to the target market.

Example: While marketing the movie 'Harry Potter', the distributors of the film also sold spectacles and toys of the kind used by the hero in the film to attract kids to the movie. Thus, the distributors were selling not just the movie, but the entire experience associated with it.

Providing a Sensory Stimulation to Customers

Marketing of services is made easier by attaching an entertainment or fun factor to it. By doing so, a service provider stimulates the senses of customers and makes them realise the difference from other service providers.

Example: A tourist destination that has an amusement park, bungee jumping, skiing, movie theatre, and trekking facilities will highlight the fun factor of the place and will be more attractive to most tourists than a tourist destination that is located on a hill with no such facilities.

Changing the Image of Service Organisations

An organisation that aims to change its image, should give importance to managing the evidence. Changing the current image in the minds of customers and superimposing it with a new image is a difficult and challenging task for the service organisation.

Example: When McDonald's entered the Indian market, it easily succeeded in capturing the kids' and teens' market. However, to give itself an image that it serves the entire family and

not just kids and teens, it launched a series of advertisements showing elderly couples eating at the restaurant and sharing tender moments along with delicious food, families celebrating birthdays at the restaurant, and so on. This strategy by the food chain helped change its image from that catering to the kids' and teens' market to being a complete family destination.

Instilling the Service Philosophy in the Employees of the Service Provider

A service provider, while training his employees, should clearly communicate his organisation's service philosophy to them. The management can also instil the service culture in its employees through tangible evidence, which help reinforce the company's service philosophy in the minds of the employees as well as communicate the same to customers.

Example: Theme parks and several toy stores have service personnel dressed up as cartoon characters to convey the fun element and create a lively and buoyant mood in the other service personnel who will in turn be able to replicate the same while serving customers.

Tangible clues of the service also convey the care and concern of a service organisation towards its employees.

Example: The ambience created in an advertising firm can help in stimulating the creativity of its employees as well as in conveying the right image to its customers.

Image

A customer's perception of the service quality is also dependent on the image of a service organisation in the mind of the customer. Organisational image is the customer's perception about an organisation and this may be either at the local level or at the corporate level. A customer who has a positive image about a company is likely to ignore some instances of poor service. However, repeated bad experiences will damage the image of the company in the eyes of the customer. In contrast to this, if the customer has a negative image of the service organisation and if the organisation fails to provide proper service, it will further add to the negative image of the organisation in the mind of the customer and result in dissatisfaction.

Price

The price of a service has an impact on customer perception of the service. The price of a service influences customer perceptions of value, quality, and satisfaction. Due to the intangible nature of services, customers often assume price as an indicator of quality of service. If a service organisation prices its service low, customers may doubt its quality. On the other hand, customers have expectations of high quality if a service is priced high. Customers may also assess the value of a service in relation to its price after consuming the service.

Caselet

First Serve, then Deserve

By Jagdeep Kapoor

The concept of customer service in India is often shrouded in myth and mystery. For the same reason it does not get the importance it deserves. I would therefore like to start with debunking a popular myth.

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Customer service standards must be set and they must be met

Any performance by a company, product or service depends on the expectations of the customer being defined as well as the delivery being up to the expectations so that there is satisfaction and delight.

Hence, my strong recommendation is: 'Customer service standards must be set. Customer service standards must be met.'

This is important because the expectations of the customers are growing by leaps and bounds. Indian customers have become world-class customers who want world-class products and world-class services. Companies which do not respect the Indian customer are rejected by the customer. Hence it is important to make sure that the customer service standards are set and met.

There are two types of customer service standards. One type is what I call the internal customer service standard. The second type is what I call the external customer service standard. Both these are important to ensure customer satisfaction. The external customer service standard is visible to the external customer and is a commitment and promise that the company makes to its external customers.

The internal customer standard is an internal working norm which has to be completed so that the external standard can be met.

For instance, if in a restaurant there is a norm set that the food will be served within 20 minutes of the order being placed, this is the setting of an external customer standard. However, to meet this external customer standard, it is important to set an internal standard for the kitchen so that the food is prepared and ready within 15 minutes, and the external standard is met taking into account five minutes of serving time.

The reason why meticulous planning is needed for customer service standards to be set and met is that if there are no specified or measurable norms there is bound to be a delay or error leading to customer dissatisfaction.

One would notice that after buying a computer or even an air-conditioner the delivery is made on time but not the installation. This reflects that external and internal customer service standards for installation were not set and therefore not met.

Customer service standards are reflections of the soul of any brand or company. If you want to give regular and sustained delight to customers make sure you follow my Brand Mantra – 'Customer service standards must be set! Customer service standards must be met.'

Source: thehindubusinessline.com

4.3.2 Influencing Customer Perceptions

A customer's purchase decision of a particular service largely depends on his perceptions of the service. Therefore, it is necessary for service organisations to know the factors that influence customer perceptions. Based on these factors, service organisations should develop strategies to influence customer perceptions and achieve higher levels of customer satisfaction. The following strategies will help service organisations influence customer perceptions:

Enhance Customer Satisfaction through Service Encounters

Service organisations should understand that service encounters play a crucial role in satisfying or dissatisfying customers. To increase the satisfaction level of customers during service encounters, service organisations should innovate ways of delivering their service. Further, service organisations should train their employees on ways to recover from a service failure,

give them flexibility in delivering the services, offer tips to be spontaneous, and assist them in coping with difficult customers.

Reflect Evidence of Service

Before making a purchase decision, customers often try to assess the service evidence with the help of tangible clues like the service organisation's personnel, processes, and physical evidence. They evaluate the behaviour of the service organisation's personnel in terms of friendliness, knowledge of procedures, and their willingness to help customers. Customers also assess the flexibility involved in the processes and the physical evidence in terms of ambience and layout. Organisations should understand the significance of these clues and make efforts to reflect evidence of their service in terms of their people, processes, and physical evidence.

Task Collect the tangible cues (all that you can) associated with HDFC Bank, McDonalds, Kingfisher Airlines and Matrix Salon. Analyse their impact on you and your family's perceptions as consumers.

Communicate and Create a Realistic Image

A service organisation should not only communicate its promises clearly but should also ensure that it keeps its promises. This will create a positive image of the company in the eyes of its customers. Word-of-mouth publicity about a company can create a positive or a negative image of it in the minds of existing or potential customers. While customers who have had positive experiences with the company will indulge in good word-of-mouth publicity, those who have had unpleasant experiences will try to tarnish the image of the company by indulging in bad publicity.

Therefore, it is important for organisations to be realistic in making promises to their customers. They should desist from making exaggerated claims that could damage their companies' image in future, due to their failure to meet promises.

Enhance Customer Perceptions of Quality and Value through Pricing

Often, customers view price as an indicator to assess the value or quality of a service. Customers are dissatisfied if they feel that the service is not worth the price they are paying for it. The dissatisfied customers will engage in negative word-of-mouth publicity, which can be dangerous to the service organisation. Therefore, service organisations should adopt a pricing strategy that can give a clue about the true value and quality of the service.

Self Assessment

Fill in the blanks:

13. The employee behaviour, the ambience, etc. are……service promises.
14. The service availed from railway enquiry machines are ……..…… encounters.
15. ……..…… is a situation when a service failure has occurred and includes how well the employees of the service provider respond to the situation.
16. ……..…… is the unsought or voluntary action of employees in delivering a service.
17. The ……..…… of a service influences customer perceptions of value, quality, and satisfaction.

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4.4 Summary

- Marketing Research is the process of systematically and objectively identifying, collecting data on the environment and the market and translating them into information that can be used by marketers to make better quality decisions.
- Marketing research then helps the service firm to "keep in touch" with the present and potential customers.
- Success might breed arrogance in a service firm and they might suffer from marketing myopia. They then may not perceive the real needs of the customers.
- Marketing research has helped many a service provider in anticipating the quantum and the type of service product desired. Mall concepts are one such example, which have benefited from continuous consumer research.
- Delivering quality service consistently gives a competitive edge to service organisations. It requires an understanding of customer expectations and the types of expectations.
- Further, knowledge of factors influencing the desired service level, adequate service level, and zone of tolerance will help service organisations consistently meet and exceed service expectations of customers.
- While evaluating service offered by an organisation, customers compare perceived quality of service with the expected quality of service.
- Therefore, service organisations should have knowledge about customer perceptions and the influence of factors such as service encounter, service evidence, image of the service organisation, and price of the service on customer perceptions.
- Service organisations should also attempt to understand the various types of service encounters like remote, face-to-face, and phone encounters to be able to understand customer perceptions.
- They should examine the factors that influence customer satisfaction/dissatisfaction, like recovery, adaptability, spontaneity, and coping and innovating strategies to influence customer perceptions.

4.5 Keywords

Adequate Service: Minimal level of service that a customer is willing to accept from a service provider.

Coping: Process of how employees manage problem customers and situations effectively.

Desired Service: Service that a customer desires and hopes to receive.

Empathy: Ability of the service provider to show concern for the customers.

Predicted Service Expectations: Level of service a customer believes he will receive from a service provider.

Remote Encounters: It does not involve any direct human contact.

Responsiveness: Willingness of the service provider and his staff to provide assistance and prompt service to customers.

Transitory Service Intensifiers: Factors, which intensify or heighten the level of adequate service expectations of customers.

Zone of Tolerance: Gap between customer's desired service expectations and the adequate service expectations.

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4.6 Review Questions

1. "Marketing research then helps the service firm to "keep in touch" with the present and potential customers." Discuss
2. Explain the concept of market myopia. Does it lead to a false perception about the service firm?
3. If you were the marketing manager of an airline company, how would you use market research effectively to judge customer expectations?
4. Why is it so important for any service firm to understand the customer perceptions? What can you do to ascertain customer perceptions about your service?
5. "Customer expectations have a deeper meaning than being mere requirements". Comment
6. Explain the five dimensions of service process with examples.
7. Explain the customer service level expectations with examples.
8. Analyse the factors that influence the customer desired and adequate levels.
9. "It is very difficult to manage customer perceptions". Discuss
10. Discuss the factors affecting customer perceptions.

Answers: Self Assessment

1.	Marketing myopia	2.	Marketing research
3.	Judgemental	4.	ABC analysis
5.	Longitudinal	6.	False
7.	True	8.	True
9.	True	10.	False
11.	True	12.	True
13.	Implicit	14.	Remote
15.	Recovery	16.	Spontaneity
17.	Price		

4.7 Further Readings

Books

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, Third Edition, Prentice Hall, US

Leonard L Berry, *Great Service: A Framework for Action*, the Free Press

Online links

http://myvccs.org/proginfo/sample2.htm

http://thethrivingsmallbusiness.com/articles/managing-customer-expectations/

http://aqsiteam.com/cust-perception.htm

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Unit 5: Customer Relationship Management in Services

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Objectives

After studying this unit, you will be able to:

- Describe the Service-profit Chain Model
- Identify the components of CRM
- Discuss the CRM Business Cycle
- Realise the concept of Customer Relationship Analytics
- Describe the concept of Lifetime Value of a Customer

Introduction

Management is a broader concept than marketing, because it covers marketing management, manufacturing management, human resource management, service management, sales management, and research and development management. Thus, CRM requires organizational and business level approaches – which are customer-centric – for doing business rather than simply a marketing strategy. CRM involves all of the corporate functions (marketing, manufacturing, customer services, field sales and field service) required to contact customers directly or indirectly. The term "touch points" is used in CRM to refer to the many ways in which customers and firms interact.

CRM is a business strategy that goes beyond increasing transaction volume.

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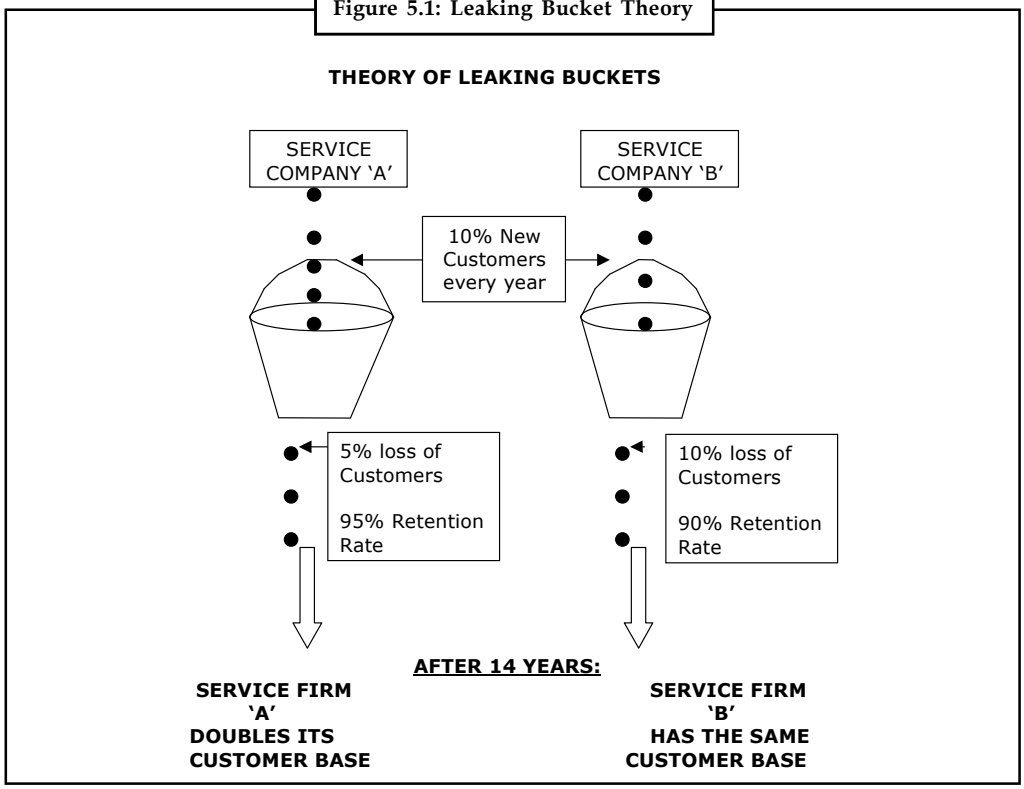
Its objectives are to increase profitability, revenue, and customer satisfaction. To achieve CRM, a company-wide set of tools, technologies, and procedures promote the relationship with the customer to increase sales. Thus, CRM is primarily a strategic business and process issue rather than a technical issue. In this unit, you are going to learn various aspects of CRM of a service firm. In this unit, you will also be introduced to some of the CRM strategies used by service firms.

5.1 Customer Retention through Relationship Marketing

For a service firm, its marketing philosophy should be:

- To acquire customers
- To retain customers
- To do business with only profitable customers.

Figure 5.1: Leaking Bucket Theory



It is more expensive to acquire customers than retain customers. But customer retention becomes a challenge in the era of heightened competition and decreasing customer loyalty. Various researches point out to the fact that customer acquisition is five to ten times more expensive than customer retention.

The above diagram explains the leaking bucket theory that all things being equal (firm size, service offer, rate of customer acquisition, etc.), a firm, which has half the customer leakage than its rival, will have double the market base in fourteen years. Or putting it in a different way, if two service firms intend to have the same market base but have different customer retention capabilities, they will require different customer acquisition rate or volume. The service firm with better customer retention will need to acquire fewer customers than its rival, suffering less cost and – at the same time fine-tuning to focus on high transaction, high profitability, and

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low-maintenance cost clientele. It underlines the importance of relationship marketing in such an intangible area as services.

It would be very difficult and impracticable for a service firm to be all things to all people; instead, it should concentrate on those customers who yield maximum profits, by giving them maximum customer satisfaction. This segmentation will help the service firm optimize its limited resources and get better return on capital employed (ROCE). To survive and prosper in the service business, the firm has to map its competencies and capabilities, target profitable customers, and work hard at retaining them.

Customer retention makes business sense. There are evidences through various researches that there is a very strong relationship between customer satisfaction and profitability, just as there is between customer retention (in other words, customer loyalty) and profitability. This is explained in a model called the service-profit chain.

Self Assessment

State whether the following statements are true or false:

1. A service firm should look to acquire and retain customers.
2. It is more expensive to retain customers than acquire customers.
3. The service firm with better customer retention will need to acquire fewer customers than its rival.

The Service-Profit Chain Model

The 'service-profit chain' model is based on the following seven theorems:

1. Profit and growth are linked to customer loyalty.
2. Customer loyalty is linked to customer satisfaction.
3. Customer satisfaction is linked to service value.
4. Service value is linked to employee productivity.
5. Employee productivity is linked to employee loyalty.
6. Employee loyalty is linked to employee satisfaction.
7. Employee satisfaction is linked to internal quality of work life (internalizing the firm's brand).

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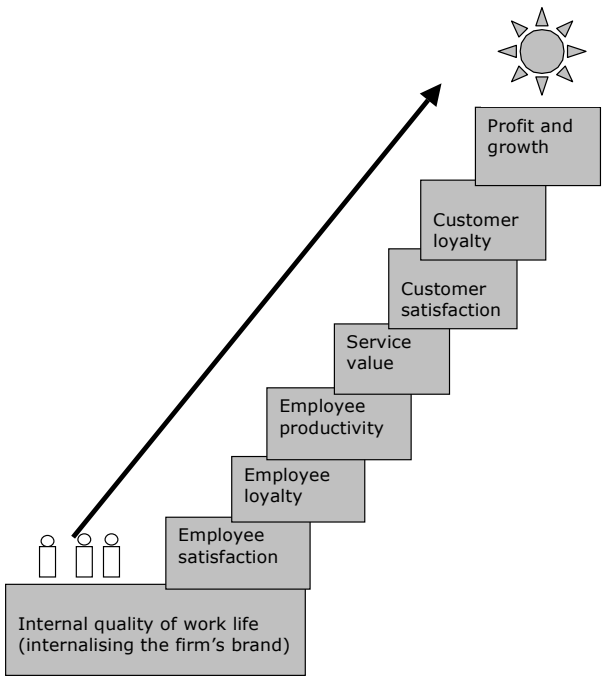
Figure 5.2: The Service-Profit Chain



The service-profit chain model has certain limitations that need to be considered before adopting it wholeheartedly. The limitations of this model are:

- Relationship between satisfaction and loyalty is not always linear.
- The relationship depends on the type of industry. Where the choices for the customer are very high, the relationship is very strong and customer migration is possible; in monopolistic competition (utilities, public transportation, government/public service, etc.), the relationship is weak.

5.1.2 Benefits of a Successful Customer Retention Programme

1. Customer retention is cheaper than customer acquisition
2. Reduces communication costs for customer acquisitions like advertising and other promotions.
3. Loyal customers tend to do repeat purchase, reducing marketing costs but increasing revenues.
4. Loyal customers tend to avoid substitutes and other competition and perform repeat purchases even if the price of the service is more - increasing revenue and profit.
5. Satisfied customers who metamorphose into 'advocates' or 'apostles' perform the role of unpaid salesmen, promoting the service of their own free will.
6. Repeat customers are less expensive to serve than first time customers, as they are well aware of the offer and do not require customer support, education, guidance and training.

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Task Find out about various customer retention programmes undertaken by various service firms in India and comment on their outcome.

The service firm tends to lose all the future stream of revenues from its banks of loyal customers (who are a profitable segment) if such hitherto loyal customers switch to a competitor. There has been research in the field, which has identified strong relationships between loyalty (retention) and increase in customer net present value. An increase of 5 percent in retention rate by a service firm increases the net lifetime profits from the customer.

Self Assessment

Fill in the blanks:

4. Customer satisfaction is linked to ……
5. Employee productivity is linked to ……
6. Customer retention is …… than customer acquisition.

5.3 Components of CRM

CRM consists of three discrete components:

- Customer,
- Relationship, and
- Management.

CRM tries to achieve a 'single integrated view of customers' and a 'customer-centric approach' by judiciously blending these three factors.

Customer

The customer is the only source of the company's present profit and future growth. However, a good customer, who provides more profit with less resource, is always scarce because customers are knowledgeable and the competition is fierce. Sometimes it is difficult to distinguish who is the real customer because the buying decision is frequently a collaborative activity among participants of the decision-making process. Information technologies can provide the abilities to distinguish and manage customers. CRM can be thought of as a marketing approach that is based on customer information.

Relationship

The relationship between a company and its customers involves continuous bi-directional communication and interaction. The relationship can be short-term or long-term, continuous or discrete, and repeating or one-time. Relationship can be attitudinal or behavioural. Even though customers have a positive attitude towards the company and its products, their buying behaviour is highly situational.

Example: The buying pattern for airline tickets depends on whether a person buys the ticket for their family vacation or a business trip.

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CRM involves managing this relationship so that it is profitable and mutually beneficial. Customer lifetime value (CLV) is a tool for measuring this relationship.

Management

CRM is not an activity only within a marketing department. Rather it involves continuous corporate change in culture and processes. The customer information collected is transformed into corporate knowledge that leads to activities that take advantage of the information and of market opportunities. CRM requires a comprehensive change in the organization and its people.

5.3 Steps of CRM

CRM extends itself from customer acquisition to customer retention to customer delight. The important steps are:

1. ***Identifying the Right Customer***: The key here is right customer segmentation. Many marketers have failed to realize that the old models and theories of segmentation have to be changed dramatically. The segmentation criteria need to change from conventional demographic/psychographic segmentation to need-based behavioural segmentation.

   This will lead to the right definition of the right target customer. This paradigm shift in segmentation criteria is needed because the conventional segmentation criteria are losing their relevance with the evolution of the customer. Consumer behavioural variables are more relevant and actionable and can help in the right targeting. Hence marketers can develop sustainable business models and can differentiate themselves from others by using high-level consumer behavioural variables.

2. ***Retaining the Right Customer:*** It is very important to measure customer profitability. ROC (return on customers) should be calculated on at least three dimensions: frequency of customer purchases, value per transaction and profitability.

   Customers who are low on all three dimensions need least focus, whereas customers scoring high on all the three need maximum focus. The customers lying between the two extremes need to be carefully analyzed to decide the degree of focus required for each of the segments.

   Marketers need to lay down systems and processes (which can be very simple formats and not necessarily require capital-intensive ERP systems) to keep track of these dimensions. Identification and sizing of these clusters can help develop the right strategies for each customer group.

3. ***Delighting the Customer***: Many marketers lose bottom-line focus in their efforts to please the customer and may inadvertently erode business profitability. Marketers need to develop strong value propositions in terms of better products and better services so that strategies are not only customer-centric but also lead to high profitability. Pleasing the customers should not be at the cost of hurting the company's bottom line.

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Specific software to support the management process involves:

- Field service,
- E-commerce ordering,
- Self-service applications,
- Catalogue management,
- Bill presentation,
- Marketing programs
- Analysis applications.

All these techniques, processes and procedures are designed to promote and facilitate the sales and marketing functions.

Self Assessment

Multiple Choice Questions:

7. Which of these is not one of the components of CRM?
   (a) Customer
   (b) Employees
   (c) Relationship
   (d) Management
8. …… are the only source of a company's profit and future growth.
   (a) Employees
   (b) Management
   (c) Shareholders
   (d) Customers
9. Return on Customers should be calculated on at least three dimensions: frequency of customer purchases, value per transaction and ……
   (a) Profitability
   (b) Customer status
   (c) Loyalty
   (d) Growth in revenues

5.4 CRM Business Cycle

Acquisition and Retaining

Acquisition is a vital stage in building customer relationship. For the purpose of customer acquisition, an organization is likely to focus its attention on prospects, enquiries, lapsed customers, former customers, competitor's customers' referrals and the existing buyers.

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From these, the organizations need to acquire customers and prospective customers and retain valuable customers.

Task Visit websites of a few service companies and make a note their customer retention strategies.

Understand and Differentiate

Organizations cannot have a relationship with customers unless they understand them, find out what they value, what types of services are important to them, how and when they like to interact and what they want to buy. True understanding is based on a combination of detailed analysis and interaction.

Caution Several activities are important:

- Profiling to understand demographics, purchase patterns and channel preference.
- Segmentation to identify logical unique groups of customers that tend to look alike and behave in a similar fashion. While the promise of one-one marketing sounds good, not many organizations have mastered the art of treating each customer uniquely. Identification of actionable segments is a practical place to start.
- Primary research to capture needs and attitudes.
- Customer valuation to understand profitability, as well as lifetime value or long-term potential. Value may also be based on the customer's ability or inclination to refer other profitable customers.

Customers need to see that the company is differentiating between service and communications based on what they have learned independently and on what the customers have told them.

Develop and Customize

In the product-focused world of yesterday, companies developed products and services and expected customers to buy them. In a customer-focused world, product and channel development have to follow the customer's lead. Organizations are increasingly developing products and services, and even new channels based on customer needs and service expectations.

Interact and Deliver

Interaction is also a critical component of a successful CRM initiative. It is important to remember that interaction does not just occur through marketing and sales channels and media; customers interact in many different ways with many different areas of the organization, including distribution and shipping, customer service and online. With access to information and appropriate training, organizations will be prepared to steadily increase the value they deliver to customers.

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Case Study

SOCLEENS – Seeking to Exploit the Customer Asset Base

Socleens Utilities Ltd – part of ADAE Group – provides its approximately 70,000,000 customers in five bustling Indian states with electricity, gas, water, and heating. Socleens operates 32 branch offices in order to be physically close to customers scattered in their municipalities. With the 2000 deregulation of the Indian utilities market, utility providers suddenly realized that they had little knowledge about their customer base. Socleens situation was no different; however, Socleens moved quickly on a CRM implementation, understanding the importance of customers and the necessity to keep them loyal.

The deregulation of the market meant that Indian households could now choose providers. Facing competition, India's utility providers had to rethink business processes and redefine the way they dealt with customers. Socleens, one of India's largest regional power suppliers operating in the North of the country, was facing these issues when it decided to implement a CRM system. Socleens had to undergo major changes to shift its business model from a public sector monopoly to a customer-centric player in a competitive market.

Preparing for the new system, Socleens reviewed and documented its internal workflow and business processes. Key elements of the new system went live after only five months of implementation work, thanks to Socleens thorough pre-implementation review process. Socleens created a new Service Centre providing its private customers with around-the-clock service by having them dial one central phone number. The key to Socleens' successful CRM system is the integration into its mainframe billing system.

Key Business Challenges

Socleens billing and services were centred on the electricity and gas meter and not on the actual person or household receiving electricity or gas via that meter. For example, if a person's residence and vacation home both received electricity, Socleens system was unable to connect the two meters to one customer profile. Furthermore, Socleens had no way of tracking customers that moved because it had focused both its services and data on the meter that would remain in the apartment or building.

Additionally, Socleens could not track customer inquiries centrally and had no way of linking its 32 branch offices, which provided field and customer service. As a result, customers had to call a local branch office to request meter readings, inquire about bills, and report outages and emergencies. Socleens felt that it could provide its private customers with better service by streamlining its customer service and providing customers with one central phone number for all inquiries regardless of a customer's location.

CRM Solution Approach

Socleens first purchased an application that provided professional and call-centre solutions. Implementation of a three-tier service model was spearheaded in the first phase by a call centre with escalation functionality for 24x7 service and emergency requests such as gas leakage and a power outage. It took two months for Socleens to understand and define its business processes. It then mapped out all business processes and before it went on to develop and implement a system that allowed integration with its existing applications.

In the first phase, Socleens focused on getting a basic system operational while analyzing, redesigning and mapping communications structures and business processes to meet the basic demands of a customer-centric business, and optimizing the contact staff's workload. Subsequently, Socleens developed a central database of its customers and using customer-

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relationship analytics helped provide marketers with leads for new customers as well as insights to help service existing customers through a complicated CRM response model that allowed it to increase its marketing productivity by targeting the right customers.

The new system could track the inquiries of private customers, provide extended services and deploy field staff via a central system. The new hosted system freed Socleens' in-house resources to concentrate on business clients and valuable key accounts. The company also was now in contact with its customers 24x7 compared to previously being available only during business hours and could handle many customer calls simultaneously by having increased the number of lines, thereby reducing the amount of lost calls. Its three-tiered approach to accelerate customer calls based on urgency was vastly superior to its prior system and all calls were answered with a minimized call-waiting time.

The quick success of Socleens CRM system was due to its ability to prioritize parts of the implementation. For the first three months, all efforts were devoted to key elements of the front-end, such as the billing system. Critical to the success of the implementation was the new system's ability to handle end-of-year billing, which includes sending each customer an end-of-year statement.

Subsequently, Socleens developed a CRM response model that allowed it to:

(a) Analyze customer profiles and behaviour to help target customers

(b) Automatically identify most likely responders for a communication

(c) Eliminate guesswork by identifying significant variables that affect response behaviour

(d) Optimize customer communications through contact modelling

(e) Actively target customers directly from charts

(f) Leverage its central database to track and identify opportunities for cross-selling and up-selling.

(g) Develop new customer-response models using logistic regression algorithms.

Recognizing that it was easier and cheaper to keep existing customers happy – and thus, loyal – than it is to acquire new customers, Socleens made the right decision to implement a CRM system. Socleens understood that a successful CRM implementation could only be as good as its underlying business processes. Setting out to overhaul its public sector business practices and image, Socleens has made smart choices by analyzing, defining and mapping key processes into its new CRM system and developing a model for understanding customer responses better, resulting in higher profits and a better image.

Questions:

1. What could be the different types of opportunity losses if an organization does not have a CRM System?

2. What are the organizing implications of installing CRM systems?

Self Assessment

State whether the following statements are true or false:

10. An organisation should retain all its acquired customers.

11. In order to develop a long lasting relationship with the customers, they must conduct primary research to capture their needs and attitudes.

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12. In a customer-focused world, product and channel development have to follow the customer's lead.

5.5 Customer Relationship Analytics

The Bottom Line of CRM: Know Your Customer

CRM itself is not a technology, but a process of gathering and retaining information about customers and their interactions with your company. CRM was practiced by businesses long before CRM technology came along.

Companies now rely on databases and automated tracking tools to track needs of customers. Operational and collaborative CRM covers the nuts and bolts of this process - interacting with customers, managing the process and sharing actions with various channels and trading partners. Analytical CRM integrates customer data coming in from various channels into a single system to provide a decision-making platform. Such channels include the various components of CRM systems - call centres, customer service automation, marketing automation and sales automation.

The new model focuses on an integrative approach with one single program that covers ERP functions, sales automation, service management and marketing automation capabilities rather than using individual systems as was done in the past.

Returns

Implementing CRM systems tends to be a complicated and expensive endeavour. While money is being spent on CRM initiatives, many companies have not been able to figure out what kind of return on investment they are getting with their systems, beyond anecdotal evidence. Add to this uncertainty the risk of failure of a CRM program, and you get an idea of the managerial trepidation involved in the process, till it starts manifesting tangible returns.

The problem is that almost half of all planned CRM implementations are based on technology initiatives alone, and fail to address metrics, behaviours and processes. While many of today's database and CRM systems do a good job of capturing customer data, they can't make the data meaningful or enhance customer relationships by themselves.

Bringing Knowledge into the Equation

Customer relationship analytics - sometimes also called analytical CRM - makes sense of the mounds of data collected in CRM systems, databases, and transactions. In many cases, if the data is available, no CRM system is even needed to develop a robust analysis of one's customers. Customer relationship analytical tools can provide a 360-degree view of customers, helping a marketer understand what customers are telling him, who they are, what they need, and more importantly, what they may do in the future.

These systems enable fact-based decision-making based on hard data, rather than on anecdotal evidence.

Business Drivers

How can a business benefit from customer analytics? Simply put, and as seen earlier, it is far cheaper to retain and satisfy one's current customers than to acquire new ones.

However, it is not profitable to try to hang on to every customer. Some customer segments buy in low volumes, while others have high service requirements or high return rates. Customer-

relationship analytics will help distinguish whether customers are part of high-profit or high-maintenance segments.

Customer-relationship analytics take on the role of a highly sophisticated marketing department. These tools identify your most valuable customers, group these customers based on purchasing behaviour and other attributes, and target them with promotions and sales efforts designed to increase customer loyalty and sales revenue. By understanding the relative value of each customer, you can then focus sales and marketing efforts on the most profitable segments. Customer relationship analytics can impact the company's overall bottom line as well.

Notes Recent research by Accenture finds a direct correlation between customer relationship analytics and business revenues. More the increase in CRM performance more is the incremental revenue to the business. Accenture's research examined specific CRM initiatives that can directly enhance revenues. They discovered that the top three initiatives having the greatest impact on the bottom line include fostering high levels of customer service, encouraging strong employee motivation, and turning customer information into insight, i.e., analytics. The highest-performing companies give their frontline employees quick, easy access to critical data - purchases, contact history and product inquiries, as well as demographic and lifestyle data. They also observed that successful companies share this same analytic information with trading partners across the supply chain.

Significantly, these successful CRM companies did not view CRM as an IT project relegated to a specific department. Rather, they viewed CRM as an enterprise-wide initiative. Most CRM implementations have been fragmented, implemented within departments without a cross-organizational perspective.

Customer-relationship analytics need to be shared at all levels across the organization. Inside and in the field, sales personnel could then see higher levels of qualified customers, lower costs of sales, and more sales closed. Marketing can then be able to track responses and predict results to particular promotions or campaigns among targeted customer segments. Customer-service staff would then be able to deliver higher levels of support and customer satisfaction.

Customer-Analysis Solutions

Customer-analysis solutions should allow companies to adopt a more customer-centric approach to doing business, through in-depth analysis and grouping of customers based on purchasing behaviour, future marketing opportunities and customer service levels. Customer Relationship Analytics (CRA) should enable companies to ensure that their most profitable customers remain satisfied and that sales and marketing efforts are aimed at retaining good customers and attracting the right prospects.

Customer-Relationship Analytics should include several analytical views addressing the areas of:

- ***Customer value assessment,*** for examining, customer and channel–value from multiple perspectives, such as lifetime sales, gross margin contribution, and by factors that affect profitability such as discounts, freight and handling, and average selling price.

  By understanding the relative value of each customer, companies can begin to focus sales and marketing efforts on the most profitable customers and those with the most profit potential.

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- ***Customer acquisition and targeted selling,*** for additional profiling, segmentation and ranking of customers based on the propensity to buy, order frequency, and overall purchasing behaviour.

  With this, businesses can apply specialized metrics to segment customers and then build specific promotions or sales efforts around select customer-groups.

- ***Customer management,*** for understanding the impact of order fulfilment, returns and call-centre activity on actual sales performance. This will allow companies to review year-to-date sales and revenue and problems reported by customers to identify correlations and better understand how customer service issues are impacting profits.

Additionally, analytics could also be used to measure:

- Sales Performance Management;
- Marketing Performance Management;
- Manufacturing Performance Management;
- Procurement Performance Management;
- e-Business Performance Management;
- Customer Relationships and
- Activity Cost Management.

Technology Drivers

A formal CRM technology solution is not required to implement a customer-relationship analytics program. What is required is some level of integration between customer-facing applications – such as call-centre or Web systems – and back-end systems. Front office systems providing data pertaining to customer transactions and inquiries can be matched up with back-end financial systems that have records of customer credit and invoices. In addition, many companies already have components of CRM systems, such as sales automation systems that record customer-contact information. Data can come from a variety of sources — call centres, point of sale transactions, Web click stream data, back-end databases, and even faxes and phone records. Data from these channels is integrated into a customer-oriented data mart or data warehouse, a knowledge base that continuously captures customer data. While some integrated CRM solutions do provide this capability, companies still need the tools that will take this composite data and paint a picture about their customers.

A customer-relationship analytics system is a set of tools that are run against this data to perform business intelligence functions — reporting, analysis and data mining. Such tools can help marketers visualize, through online graphics, patterns and relationships in customer behaviour and trends. A number of variables can be measured through this data analysis engine, including net profitability, return patterns, and order-fill rates.

Example: A company may find that a particular customer segment to which it has been aggressively marketing also has a high return rate for products - thereby diminishing the profitability of this effort. It may also find that its best customers are being treated the worst because it is not able to find out who its best customers are and may not be able to judge the level of attention their business merits.

To have a successful impact on your CRM program, an analytics system needs to be speedily speedy accessible, and user-friendly. While customer – relationship analytic systems may employ

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sophisticated tools running against data stored on high-end systems, it is important that the end-results are user-friendly and accessible. If end-users have difficulty using a system, or cannot pull up the data they need within a few seconds and navigate down through the information toward a solution, they will abandon the application and its benefits will not be realized. In fact, this historically has been the main reason for the failure of sales force automation systems over the years – sales representatives, usually too focused on the business at hand, refused to find the time to learn to use what they perceived as a difficult or cumbersome system.

The solution might be to have highly-skilled analysts who use complex statistical tools for their analyses. The sales force will receive results of the analyses in a business-focused presentation that addresses the implications for each action.

Many companies are removed from their end-users because they sell through third-party distributors and retailers. For these companies, customer-relationship analysis can look at various data feeds and provide a valuable picture of customer trends.

The Importance of Customer-Relationship Analytics

Customer-relationship analytics is part of a growing effort to apply measurable and actionable analytics to key parts of the business. Business performance management applications now cover a range of key performance indicators, including sales, marketing, finance and manufacturing.

The ability to apply analytics to customer relationship management opens up opportunities to dramatically improve these relationships. In today's highly competitive environment, businesses need to better understand their customers, which ones are the most profitable, and how to best retain those customers. Though companies are investing millions of dollars in CRM systems, they are only generating data and failing to tell the company what the data means.

Customer-relationship analytics helps companies make sense of customer needs, help companies manage these relationships more intelligently and help predict the future. Such knowledge provides a crucial competitive differentiation for companies seeking to gain market share and reduce operational costs.

Self Assessment

Multiple Choice Questions:

13. Customer relationship analytics is sometimes also called ……

    (a) Analytics CRM

    (b) Analytical CRM

    (c) CRM Analysis

    (d) Advanced CRM

14. Which of these statements is not true about Customer Relationship Analytics?

    (a) It helps distinguish whether customers are part of high-profit or high-maintenance segments.

    (b) It takes on the role of a highly sophisticated marketing department.

    (c) It need not be shared at all levels of the organization.

    (d) It can impact the company's overall bottom line.

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5.6 Lifetime Value of a Customer

A fundamental concept of Customer-Relationship Management is the lifetime value of a new customer. The basic idea is that customers should be judged on their profitability to the firm over the total time they make purchases. Profitability is usually based on net value, that is, the mark-ups over cost less the cost of acquiring and keeping the customer.

Caution Fixed costs are not considered because it is assumed that these costs will be incurred with or without the particular customer.

This presents a simple method of doing the calculations. It is based on the average customer and does not consider the time value of money or the effects of marketing actions such as loyalty programs and referral programs.

Approach

The simplest approach to lifetime value is to compute the average net revenue by multiplying four quantities together:

Avg. Sale × No. of Purchases/Year × Stay of Customer × Average Profit %

Example:

Consider a stationery store serving small corporate clients: Average sale - ₹ 2,000

Number of purchases/year - 2

Expected length of customer stay (years) - 3

Average profit margin - 24%

Thus the Lifetime net revenue: ₹ 2,880

Having the net revenue, the lifetime value can be determined by subtracting acquisition and retention costs:

Lifetime value = Lifetime revenue – cost to acquire – (cost to retain × no. of purchases) If, for example, the allocated cost to an acquired customer from an advertisement is ₹ 500 and the cost to retain the customer for each purchase after the first one is ₹ 20 then:

Net Lifetime value of customer = 2880 – 500 – (20 × 5) = ₹ 2,280

Three strategies can be followed to increase the value of the customer:

1. Increase size of average sales (tie-ins, package multiple items).
2. Increase the number of sales (find other customer-needs you can provide and satisfy them with).
3. Increase profit margins (reduce overhead costs, reduce cost of goods and raise price if market will stand it).

A more sophisticated calculation would probably include retention rates (per cent of customers who buy again), discount rates, effect of loyalty programs, average annual purchase per customer (including increasing number of sales and increasing amount per sale to retained customers), mark-up of goods, cost to obtain a new customer, cost per year to maintain a customer, cost to obtain customers through referrals, risk factor (that the customer will not pay), delay between order and payment (i.e., the account receivable days), repurchase cycles, etc.

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All of these considerations would need to be factored in a lifetime value model depending on the industry and company where CRM is to be implemented.

Caselet **New Social CRM Capabilities at Microsoft**

As part of Microsoft's long-term vision for social CRM (whereby the product could be the central location for businesses to manage all their relevant important relationships and interactions), Microsoft Dynamics CRM will feature new social collaboration capabilities.

Chiefly, those capabilities will be:

- ***Micro-blogging:*** Users will receive status updates and notifications regarding business events and actions, bringing simple experiences for users similar to those of Facebook and Twitter.
- ***Activity feeds:*** The software will deliver configurable real-time notifications on all important relationships and significant business events via a blended view of micro-blog posts and all interactions for a person, customer or sales opportunity.
- ***Conversations:*** Users will be able to post questions, observations, suggestions and status updates, allowing them to collaborate quickly and efficiently, locate information or expertise and gather feedback from others.
- ***Automated activity updates:*** Users will be free to post information directly to the activity feed based on configurable event rules, noting, for example, that a sales opportunity is closed. Users will be able to subscribe to or 'follow' activity feeds, and consume them in a variety of ways.
- ***Windows Phone 7 mobile application:*** This will allow users to view their activity feeds anywhere.

Source: www.enterpriseappstoday.com

Self Assessment

Fill in the Blanks

15. For the calculation of CLV, …… costs are not taken into consideration.
16. CLV can be calculated s: Avg. sale × No. of purchases/year × Stay of customer × ……

5.7 Summary

- CRM is a business strategy that goes beyond increasing transaction volume. Its objectives are to increase profitability, revenue, and customer satisfaction. To achieve CRM, a company-wide set of tools, technologies, and procedures promote the relationship with the customer to increase sales.
- It is more expensive to acquire customers than retain customers. But customer retention becomes a challenge in the era of heightened competition and decreasing customer loyalty. Various researches point out to the fact that customer acquisition is five to ten times more expensive than customer retention.

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- Service profit model is based on seven theorems, which says that customer loyalty is linked with customer satisfaction and employee loyalty with employee satisfaction. But it has been criticized by some on the grounds that the relation between satisfaction and loyalty is not always linear.
- CRM consists of three components: customer, relationship and management. The customer is the only source of the company's present profit and future growth.
- The relationship between a company and its customers involves continuous bi-directional communication and interaction. The relationship can be short-term or long-term, continuous or discrete, and repeating or one-time.
- CRM is not an activity only within a marketing department. Rather it involves continuous corporate change in culture and processes. The customer information collected is transformed into corporate knowledge that leads to activities that take advantage of the information and of market opportunities.
- CRM business cycle consists of four stages: acquisition and retaining, understand and differentiate, develop and customize, and interact and deliver.
- Analytical CRM integrates customer data coming in from various channels into a single system to provide a decision-making platform. Such channels include the various components of CRM systems - call centres, customer service automation, marketing automation and sales automation.
- Customer-relationship analytics take on the role of a highly sophisticated marketing department. These tools identify your most valuable customers, group these customers based on purchasing behaviour and other attributes, and target them with promotions and sales efforts designed to increase customer loyalty and sales revenue.
- Customer-relationship analytics is part of a growing effort to apply measurable and actionable analytics to key parts of the business. Business performance management applications now cover a range of key performance indicators, including sales, marketing, finance and manufacturing.
- A fundamental concept of Customer-Relationship Management is the lifetime value of a new customer. The basic idea is that customers should be judged on their profitability to the firm over the total time they make purchases.

5.8 Keywords

Conformance: Delivery quality meeting design standards.

CRM: managing of prospects all the way through the entire sales process and after.

Customer Lifetime Value: The profitability of a customer over the period of a business relationship; can include multiple transactions and purchases.

***Customer Relationship Analytics*:** set of tools to perform reporting, analysis and data mining.

ERP: helps a manufacturer or other business manage the important parts of its business.

Return on Capital Employed: establishes the relationship between the profit and the capital employed.

***Service Profit Chain*:** measures relationship between loyalty, satisfaction and profitability.

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5.9 Review Questions

1. "CRM is a business strategy that goes beyond increasing transaction volume." Comment
2. Key to a successful CRM is right segmentation and customer delight. Do you agree? Give reasons and examples to support your answers.
3. "It is far cheaper to retain and satisfy one's current customers than to acquire new ones." Why?
4. "Customer-relationship analytics helps companies make sense of customer needs, help companies manage these relationships more intelligently and help predict the future." Discuss
5. How does CRM analytics help in effective differentiation? What is the concept of Lifetime Value of a customer?
6. What are the major drivers for the tourism industry to go in for CRM system?
7. Devise a plan to develop a CRM system for a retail store.
8. How would a 'Know Your Customer' strategy work for a banking firm?
9. Describe the CRM business cycle.
10. Calculate the Lifetime Value:

    Average Sale: ₹ 3400

    No. of repeat purchases in a year: 5

    Expected length of customer stay: 18 months

    Average Profit Margin: 18%

    Acquisition Cost: ₹ 700

Answers: Self Assessment

1.	True	2.	False
3.	True	4.	Service value
5.	Employee loyalty	6.	Cheaper
7.	b	8.	d
9.	a	10.	False
11.	True	12.	True
13.	b	14.	c
15.	Fixed	16.	Average profit %

5.10 Further Readings

Books

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, Third Edition, Prentice Hall, US

Leonard L Berry, *Great Service: A Framework for Action*, the Free Press

Notes

Online links

http://www.smithfam.com/news/o1.html

http://www.crminfoline.com/

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http://www.crm-strategy.net/

Notes

Unit 6: Service Quality

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Objectives

After studying this unit, you will be able to:

- Identify the service quality issues
- Describe the Gap model
- Discuss the Service Management Model
- Explain the Service Marketing Model

Introduction

There are a lot of challenges that service marketers face due to the basic difference that prevails between service and goods. Some of the challenges that they constantly face are:

- Understanding customer needs and their expectations from service;
- Tangibilising the service offering;
- Dealing with different types and varieties of people – internal as well as external customers – as also the delivery issues;
- Keeping promises made to customers.

But the most intriguing challenge is the measurement and monitoring of quality.

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Some questions regarding quality of service still elude any definitive answers:

- How can service quality be defined and improved when the product is intangible and non-standardised?
- How can new services be designed and tested effectively when the service is essentially an intangible process?
- How can the service firm be certain that its communication has been effective, consistent and relevant, especially when its other marketing mixes are also communicating? This apprehension is especially true with respect to the role played by the providers in the service transaction.

In this unit, you will learn about the quality issues in services and various service quality models.

6.1 Service Quality Issues

Defining quality in service: In manufacturing, quality is defined by the degree of compliance between stated goals and achieved targets. It is therefore rather easy to measure and conform to a standard. In service it becomes difficult to comprehend the concept of quality and measure it. This is due to the mother of all characteristics for services – the intangibility factor – and it makes measurement and assessment of service quality extremely challenging. Perception of service quality is, additionally, felt by all parties involved in a service delivery process: service providers, customers and suppliers. They should therefore understand each other's definitions of service quality.

Quality can be viewed from multiple perspectives:

Product-based

The definition is based on measurable parameters. It is suitable for goods, but becomes a challenge in services. The number of times a telephone rings before the receiver is picked up by a service provider can be a basis of measuring responsiveness.

Example: Domino's Pizza has successfully positioned itself as a firm, which promises to deliver its fare in half an hour - in other words, giving measurable parameters for quality.

User-based

This definition is from the customer's perspective, reinforcing the notion that "quality is in the eyes of the beholder".

Example: An extremely well-read professor following all the guidelines of teaching can be condemned with "poor" rating if the students are not able to comprehend the accent, or if the delivery is uninteresting.

This element of subjectivity raises a challenge: that of finding out:

- What the customer expects,
- Which attributes to be included for garnering the largest appeal from the largest group of customers, and
- How to differentiate between those attributes that provide satisfaction and those that imply quality.

This approach begins where product-based quality definition ends.

Manufacturing-based

This is conformance based and quality is perceived as an outcome of production processes. Output is considered to be of high quality if it conforms to design specifications. This factor is controllable by the service firm but does not take into consideration customer satisfaction.

Value-based

This definition equates quality with value. The service provider will have to strike a balance between conformance and performance, evaluating benefits and price to customer satisfaction.

Transcendental

Quality can only be experienced but can neither be described nor documented rendering it impractical for quality managers. Tourism is one such area where quality can, to some extent, be only experienced directly.

Task Give examples of some quality issues with some major service firms based on product, user and value.

Quality in service has two-window viewpoints: internal and external to the service firm. Internal quality is all about the entire service delivery process—from concept to encounter/experience/transaction/consumption. While internal quality is all about conformance and compliance to design standards, external quality is about the customer's perception. While the former can be controlled by the service firm, service quality is as perceived by the customers - and should be measured from that perspective. All aspects of 'marketing myopia' rear their ugly heads again when any service quality measurement is based on the manager's opinions of the customer's expectations:

- Service firms may not know the specific criteria for decision-making in service consumption.
- Management may be myopic on the way customers evaluate performance of the competitive products.
- Marketing myopia might creep in and make management blind to the differing and evolving needs of the consumers. The need evolution could be due to market and environmental factors, competitive response and technological advances.

Caution We give below the formal definition of quality:

Quality is "the totality of features and characteristics of a product or service that bears on its ability to satisfy given needs."

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Self Assessment

Match the following sets:

Set A

1. You feel that the haircut you got is good even though others might not feel so.
2. Adventure sports like scuba diving and bungee jumping.
3. Time spent waiting in a salon leads to various perceptions regarding the dresser.
4. An airline's services are designed to near perfection.

Set B

(a) Product based quality

(b) User based quality

(c) Manufacturing based quality

(d) Transcendental quality

6.2 Service Quality Models

6.2.1 Gap Model of Service Quality

This model can help a firm desirous of improving service quality to focus better on its strategies and service processes. This model can not only be used to find and identify areas in service delivery and designs (which might lack quality), but also measure and monitor quality in service.

Quality in service is as perceived by the customer. There is no other way to either comprehend or administer. As service is intangible; the only way to measure quality in service is to measure the expectation of the customer before the receipt of service and measure his perception after the experience, that is, the service encounter. The gap between the two is a measure of the service quality. The larger the gap, the worse is the service quality; the narrower the gap, better the service quality of the firm; i.e., the firm is successful in meeting the customer's expectations... so far.

Caution Since consumer expectations keep inching upward constantly, so must the quality of service.

- the measurement of the expectation of the customers (in this case, students) before the service delivery (before admission), and
- the measurement of perception of the experience, after the service encounter (after admission, during the 2-year course and after the convocation);
- Thus measuring the gap between the two.

The model professes two types of gaps:

The Customer Gap

Customer Gap is the gap between customer expectations and customer perceptions. This, in other words, is the service quality shortfall as seen by the customers. Customers develop

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expectations from receipt of external stimuli from many sources - ranging from those that are company-controlled to social influences. These form the bases of his reference-to-come for the service experience. The customer's perceptions indicate the service as actually received, for all practical purposes, since what we perceive is what is real to us. Perceptions are everything.

- Company-controlled external stimuli are: service product/offer, price, advertising, promotions, displays, outlets etc.
- Social influences as external stimuli are: word of mouth communications and reference groups.
- Other influencers of expectations are: personal needs and past experience of the customer.

The customer gap indicates the difference between actual performance and the customer's perception of the service. There are a lot of subjective judgments made by customers. Last experiences may prejudice them and change their estimation of quality.

Example: A customer is satisfied with a certain restaurant; but his last experience there (it could be because of a new waiter) could leave him embittered, washing away years of happy experiences at one go.

Lesson: We are only as good as our last 'Moment of Truth', and what it signified to the customer.

Service quality is all about the responsiveness of an organisation to meet the customer's expectations. The service performance is measured by the perceived service quality. The quality of a service has two components:

- ***Technical Quality:*** This is the end result of the service operations process.
- ***Functional Quality:*** This is about the process, especially concerning the interaction between the customer and service provider.

These two factors inject a heavy dose of subjectivity into the service process.

Any service organisation would be desirous of closing the gap between what is expected and what the customer has received. To them, this would be absolutely necessary to build a long-term relationship with the customer, to retain him. But in order to close the Customer Gap, another type of gap has to be closed: the Provider Gap.

The Provider Gap

There are four provider gaps and these in sum total are the cause of the Customer Gap. They are the shortfalls within the service firm. To close the customer gap, the provider gap (or, as also known, Company Gap) has to be bridged. The four provider gaps are:

Gap 1: Customer Expectation – Management Perception Gap

It is the inability of top management to perceive what the customer wants, and is the main reason why a firm cannot meet a customer's expectations. The company is blinded by a perceptual veil of ignorance, arrogance or criminal neglect.

Some of the reasons why Gap-1 can occur are:

- Inadequate marketing research;
- Lack of upward communication in the organisation;
- Insufficient focus on relationship building ('don't care' attitude), etc.

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Gap 2: Management Perception – Service Quality Expectation Gap

This gap is created in the design process of the service product and lying down of specifications for service quality during service transactions. In the design process, this gap arises during the translation of management's perception of customer-expectation into design specifications. Managers would set specifications for service quality on the basis of what they believe the customer requires — a very dangerous presumption. The implications of this gap are that even if the firm has crystal-clear knowledge and understanding of the customer's expectations, there would be scope for misunderstanding this, leading to setting the wrong specifications, service designs and standards.

Example: A bank would believe that customer friendly interaction is what the customers prefer but the standard would be set on computerisation — which is impersonal and neutral. There is no human contact to support the concept of 'friendliness'.

Some reasons for Gap-2 to occur are:

- Failure to connect service design to service positioning
- Unsystematic new-service development process
- Lack of customer-defined service standards
- Absence of a formal process of setting service quality goals, etc.

Gap 3: Service Quality Specifications – Service Delivery Gap

This occurs at the service provider level when there is deviation from service standards specified and actually delivered to the customers. This probably is the bane of all public sector institutions, be they banks, insurance companies, hotels, travel agencies, hospitals or any such. The management's perception and service design standards might be accurate and perfect. But if the interacting service provider during service delivery falls short of the standards specified, the customer will get an impression of a poorly performing firm. This becomes especially important for that firm that is heavily dependent on people in performing the last transaction.

Example: Public sector banks might have the best of design specifications set by Reserve Bank of India; yet late-coming staff, corrupt employees (the Harshad Mehta scam of misuse of Portfolio Management Funds and the internal document mess-up in State Bank of India) would bring large gaps in quality to put it mildly.

Some of the reasons for Gap-3 to occur are:

- Ineffective recruitment, role ambiguity;
- Role conflict;
- Lack of empowerment, control and poor teamwork;
- Failure to match supply and demand (in a retail store there would be peak crowds during the evenings and slack demand during the afternoons, but the employee strengths would be the same), customers not co-operating or failing to live up to their roles (lack of knowledge and responsibilities);
- Channel conflicts, etc.

The service firm must ensure that systems, processes and people are in the right place. This will make sure that service delivery is as per the design standards set.

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Gap 4: Service Delivery – External Communications to Customer

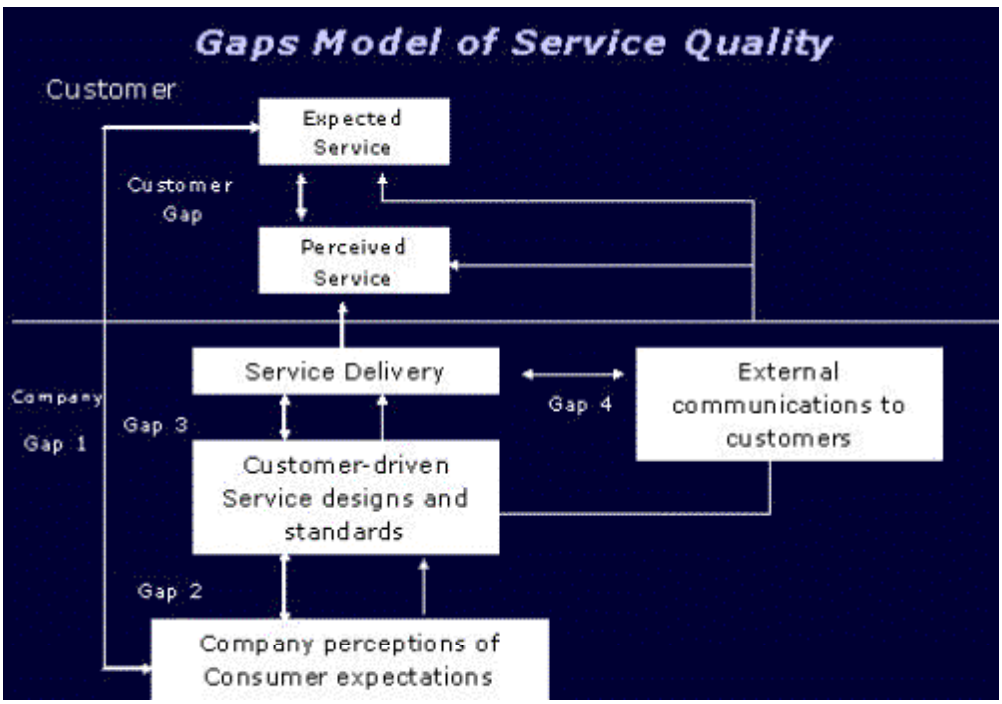
This is essentially a communication gap. The gap is the difference between service delivery intention and capability and what is being communicated to the customers. An over-hyped communication raises the expectations of the customer - and his benchmark of service quality and his expectations from the service delivery sky-rocket. It will be difficult then for the firm to meet the expectation and there would inevitably be a shortfall. The tragedy is the customers would have been satisfied without the hype. But now they go back with memories of disappointment and are actually dissatisfied. This results from inadequate communication from the firm.

Example: Doordarshan, the much-maligned state TV broadcaster, would announce a certain programme, say an interview with Mr. Amitabh Bachchan, to be broadcast at 7 p.m. and they would fail to do so at that hour - creating huge disappointment. The viewers would curse and would not forgive DD despite an apology - even if one were forthcoming.

The causes of Gap-4 are:

- Lack of cohesiveness in marketing communications;
- Absence of strong internal marketing programme, not being able to meet customers' expectations through communications;
- Over-promising in advertising and personal selling;
- Inadequate horizontal communication between sales and operations;
- Differences in policies and procedures across branches, etc.

Figure 6.1: Gaps Model of Service Quality



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6.2.2 The Service Triangle Management Model

There is a revolution taking place in the service industry, necessitating a radical change in every service professional's perspective.

Two models typify the change in the service perspective today:

- ***The Industrial Management Model:*** This is prevalent today and is a hangover from the industrial era.
- ***The Market-focused Management Model:*** This is the model which can be used by service firms as a replacement to meet the new environment changes for survival.

The Industrial Management Model is an approach to organizing a firm that focuses on revenues and operating costs and ignores the role personnel play in generating customer satisfaction and sustainable profits.

The model is a hangover of manufacturing methods but, sadly, is even now employed by many organisations. Firms that follow this model fully believe that the factors that bring in the revenue are advertising, sales promotion, accessibility, distribution and locational advantages. They are of the opinion that the cost drivers are personnel, operations and that these should be controlled. Even service sectors that seek price-competitive advantages follow this model.

Example: Jewellers of Mumbai employing Bengali goldsmiths. Even basic hygiene factors aren't met and the goldsmiths live and work in abysmal conditions. Another example would be the myriad call centres that are sprouting all over India today. To get clients and projects, they are pursuing cost-cutting measures as the means to control expenses.

Organisations following the industrial model believe that employees are indifferent, not very skilled, do not have the right attitude and motivation and therefore cannot be empowered for complex tasks. They would prefer to depend on automation and technology. There is therefore greater dependence on senior personnel and less on front-line personnel.

The Market-focused Management Model focuses on the components of the firm that facilitate the firm's service delivery system. It proposes that the firm should be supportive of those personnel who serve the customers and interact with them. In other words, there is more emphasis by the organisation on those employees who are in the front line. The support is in the form of equipment, office space (hygiene factors), moral support, motivation initiatives, career growth and money.

If a service-oriented firm decides to follow this model, then for them customer interaction or service delivery becomes the most important part of their strategy and the front-line personnel their most important tool. This model is based on the Service Triangle framework.

The Service Triangle framework depicts the relationships among three groups of the service organisation:

- The service strategy,
- Systems embedded in the organisation and
- The people of the organisation.

The customer is at the centre, interacting with each of the groups.

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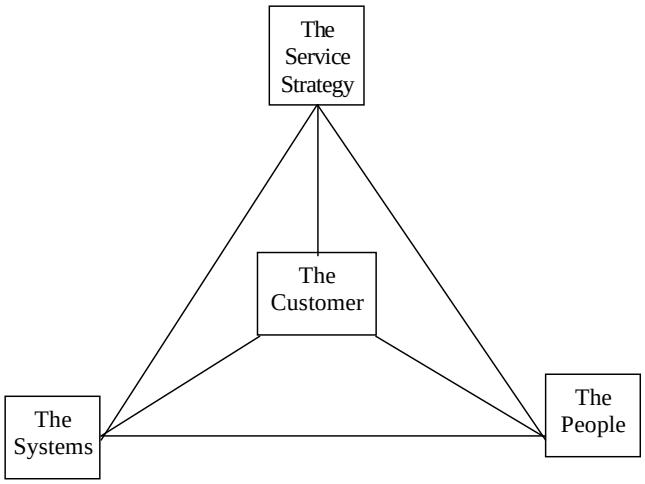
Figure 6.2: The Service Triangle



The framework has the following six relationships:

The service firm's strategy must be communicated to its consumers: This would not only apprise the consumer about the firm's service product and its distinguishing features but also about its commitment for delivery.

Example: Industrial Development Bank of India (IDBI) announces subscription is open for its deep discount, infrastructure, and other tax saving Bonds - all under a catchall name of Flexi Bonds. In its advertisements and through press conferences, the Bank would seek to make it very clear about the corpus fund; it's utility, and most important of all, the benefits and safety of the instruments.

The service strategy also needs to be communicated to the firm's employees: This would ensure transparency, eliminating misunderstandings and aid in sincerity of commitment percolating down the management levels.

Example: Continuing with the example of IDBI, the bank has to educate its officers, channel partners like share brokers and investment consultants about the bonds, its features and benefits.

Notes When SAS was in deep trouble, its CEO tried to revitalize the organisation by re-energizing the employees.

"As soon as we received permission from the board, we distributed a little red book entitled 'Let's get in there and fight' to all 20,000 employees. This gave staff, in very concise terms, the information about the company's vision and goals that the board and top management already had. We wanted everyone in the company to understand the goal: we couldn't risk our message becoming distorted as it worked its way through the company".

"The new energy at SAS was as a result of the 20,000 employees all striving towards a single goal every day".

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There should be consistency in the service strategy and the systems that are developed to run the day-to-day operations to achieve the strategic goal. Systems would be designed only after the service strategy becomes clear and is agreed on. The systems would then greatly aid the service transactions/encounter. This would greatly affect the feeling of the customers, which would lead to their satisfaction.

Example: Thomas Cook might have a strategy this tourist season for its inbound tour packages. It has over 56 branches all over the country. Tour packages can have customized itinerary plans. But it should set up systems to carry out the strategy. Else, there would be confusion in all the branches, duplication in jobs like calculation of itinerary tariffs, repeat handling of the same enquiries from all the branches and of course ad hoc decisions will take place.

The impact of organisational systems on customers: This would in turn greatly influence their service experience.

Example: Continuing with the Thomas Cook example, if the organisational systems are faulty, like the communication to the inbound tourists (the itinerary details), or if a Thomas Cook employee is not aware of the latest currency exchange rates or the hotel tariffs - then the customer is discouraged and leaves with a lasting impression of the organisation as being inefficient and incompetent.

The importance of organisational systems and employee efforts: Rules and regulations should aid an employee in giving of his best, not hinder him in his service transactions.

"Giving someone the freedom to take responsibility releases resources that would otherwise remain concealed," said Jan Carlzon, the legendary head of Scandinavian Airlines System (SAS). Carlzon was responsible for turning around SAS. Organisational systems should "transform people from administrators (read clerks) to leaders and facilitators." The rules and regulations should empower the employee and facilitate him in intrapreneurship-entrepreneurship inside an organisation.

The interaction between the customer and service provider: *It* is these interactions that give rise to service encounters or critical incidents. They are also called Moments of Truth (MOT). The quality of these interactions is the source of customer satisfaction.

Example: An insurance company might profess to be very modern, high-tech and big, and boast of versatile products. But if the quality of transaction with the customer is not pleasant, the customer will have a negative perception, which actually is the measurement of the quality of insurance service by the company.

Caselet

Moments of Truth in Hospitality: Do they spell QUALITY?

In the Hospitality industry, there are a minimum of twenty or thirty moments of truth in its provision of service. A moment of truth is when an interaction occurs between a customer and the service provider that can leave a lasting positive or negative impression on a customer.

Moments of truth in a hotel, for example, will undoubtedly include (but not be limited to) booking the room, check-in, check-out, dinner reservations, dinner ordering, dinner presentation, eating (quality and quantity of food) and laundry receipt.

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Understanding the moments of truth that are important to an organisation's customers - by segment - is the key to understanding what is good customer service.

Completing customer satisfaction surveys is not a reliable way of determining moments of truth for two reasons.

Firstly, the design of most satisfaction surveys is usually poor. They ask a series of questions which request an opinion on how well the service provider performed. The opinion is prompted by a question similar to, "The booking was handled with efficiency and attention to my needs" and the answers range from totally disagree to totally agree on a five point scale.

Surveys designed this way give a misleading view, as they do not ask a question which seeks to understand the importance of the particular services prior to the request for an opinion.

A request for a response to a statement such as, "The booking process was very important to my level of enjoyment during my stay", prior to, "How well did we perform?" will at least make it clear whether the service we provided really mattered or not, independent of whether we provided the service well, or not. In most cases, only three or four of the "services" provided in a list of ten questions will actually be important.

The second reason why customer satisfaction surveys are unreliable is that even if they are designed well, satisfaction surveys tend to condition the recipients to give a response.

In a study reported in the *Harvard Business Review* in 1995, Jones and Sasser noted that customer retention levels of around forty percent correlated to an average rating of "satisfied" and did not reach 80% until the average rating reached "very satisfied".

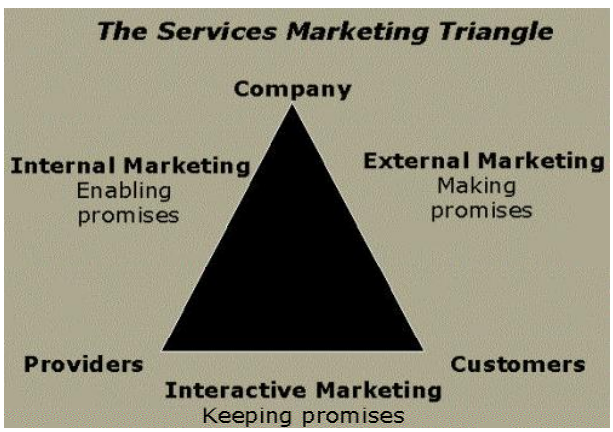
Mercer reported in a separate study that eighty percent of customers who churned from an internet service provider had responded that they were "satisfied" or "very satisfied" with their service.

However, relying on customer satisfaction surveys to determine the quality of customer service is and how well an organisation has performed is risk.

Source: www.changefactory.com.au

6.2.3 Service Triangle Marketing Model

Figure 6.3: The Services Triangle Marketing Model



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It is said that services marketing is a game of "promises" played amongst three entities engaged in the service transaction. The three entities in a service transaction are:

The Company

This is the organisation that has dreamed up the service product, and its various benefits. It offers the service product to the customer to achieve its service goals to the customers.

Example: East India Hotels, which owns and manages the Oberoi brand of hotels, offers expensive accommodation, entertainment, leisure, etc., for the upper crust of society.

Autoriders have collaborated with Avis/Hertz-Rent-A-Car to provide a fleet of cars for rental usage to corporate and well-heeled individual customers.

The Customer

The customer is the one who wants his needs and desires satisfied. He will do so by consuming the service product.

Example: Romesh Bhandari wants a loan to purchase a car. He gets a loan from ICICI Bank at a certain rate of interest.

The Sharma family is bored and therefore goes to Essel World on a public holiday. They have a grand time.

The Provider

They are the internal customers of an organisation who invariably complete the service transaction on behalf of the company. They are mostly employees, but also include franchisees, channel partners, distributors, wholesalers, retailers, etc.

Example: Andromeda is the largest Direct Sales Agent (DSA) for Citibank and successfully sells its multibrand cards successfully.

Karvy Consultants and LIC, Reliance, etc. are other examples for this.

Three different types of marketing take place during the service transaction amongst the three entities:

- ***External Marketing:*** The company does "external marketing" on the customer. It promises benefits, explains features and assures satisfaction by way of advertising, public relations exercises and other forms of corporate communication. It uses mass-media to convey its promises. It "makes promises" to the customers.
- ***Internal Marketing:*** The Company does internal marketing to its providers. The company has to provide working space like offices, and equipments, like computers, and telephones to its provider. It also has to recruit, select and trained appropriate employees, channel partners, and franchisees. It enables the providers to complete the service transaction. The company "enables its promises".
- ***Interactive Marketing:*** The providers do interactive marketing with the customer. The provider is the one who interacts with the customers. The provider is the face of the company and represents the company. Both the customer as well and provider get instant feedback about each other during a service transaction. Their transaction reflects the

perception of the quality of the service. The provider "keeps the promises" made by the company to the customers.

Task Give some examples of major external and interactive marketing campaigns run by services firms.

6.2.4 SERVQUAL Model

This method says that customer service expectation can be measured along a few factors. There are two versions of this method.

Dimensions of Service Quality

We will discuss two works both of which will give the totality of dimensions to service quality.

David A. Garvin: Eight dimensions of quality were identified by Garvin:

1. ***Performance:*** Every product is supposed to deliver benefits and the measure of its quality is performance of the offer. A dish scourer, which can clean plates completely and quickly, would be a performance measure.
2. ***Features:*** These are in addition to the core product, which does not come as standard 'features', like add-ons.
3. ***Reliability:*** This is a measure of the degree of probability of the product delivering what had been promised.
4. ***Conformance:*** Delivery quality meeting design standards.
5. ***Durability:*** This is a measure of the length of time that a product can deliver benefits, without deterioration.
6. ***Serviceability:*** If the product can be repaired with ease and speed, then it is a measure of quality. It could include the behavioural dimension of service personnel, like their politeness.
7. ***Aesthetics:*** This is a measure of the product's looks, design, touch and feel.
8. ***Perceived quality:*** Consumers develop a perception due to company-controlled stimuli like advertising, publicity and brand promotion, and social effects like word-of-mouth.

A Parasuraman et al: Parasuraman, Valerie Zeithaml and Leonard Berry identified five dimensions with which consumers judge services.

1. **Reliability**: The service should be performed with dependability, and as per its promise.
2. **Responsiveness**: This concerns the attitude of the service provider to be willing to provide service. It also includes their sensitivity as well as timeliness in responding to customer requests.
3. **Assurance:** This relates to the knowledge, skill and competence of the service providers. It also indicates their ability to generate trust and faith, and also capability in service delivery with politeness and consideration.
4. **Empathy:** This dimension relates to caring, feeling as well as the ability to give personalized service.

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5. **Tangibles**: This is a measure of the effectiveness of the physical evidence of the service provider like design layout and facilities.

Case Study **CENTRAL BAZAAR**

Measuring quality of intangibles and experiences

Central Bazaar is a popular upcoming direct-to-home shopping service in South India. It offers goods and services ranging from provisions, home maintenance, groceries, toiletries, beauty, health and home deliveries, exchanges, etc. Its service was offered initially to the residents of New Delhi and Gurgaon, and then went on to include other towns.

It was a bold new experiment in electronic retailing format, tried for the first time in India, where customers ordered for their merchandise either through the net or the telephone. A 24-hour service delivery concept, it involved selling branded goods at a one per cent discount to maximum retail price (MRP), and unbranded goods at a five per cent discount to existing rates. Central Bazaar was cautious in using the web as an exclusive method for taking order, following the bust of dotcoms in 2000 and the bad name that e-commerce had earned. In addition, it set up call centres, which became the mainstay for receiving orders, and which was more in the comfort zone of the housewives.

The Central Bazaar model, then, was that of an online Kirana store, where the line was defined as telephone as well as website. The 'store' did not have an outlet where customers could come and shop; instead, all orders were to be booked through the phone or its website, with the company promising 24-hour delivery.

The Process of Ordering from Central Bazaar: The customer has to call up the call centre. There is a very efficient and trained team, at the service of the customers, ready to take down their orders. Here, Information Technology has helped the call centre to a great extent. Central Bazaar has a system where the call centre, the warehouse and the despatch centre are all well integrated with each other. There is effective and efficient flow of information across all these levels.

All the products that are available with Central Bazaar are stored in a database, complete with the recent prices and quantity and also the promotions carried out by different companies, while also featuring Central Bazaar's exclusive offers. Thus, when a customer calls up the call centre, he/she is given all the information, right from the product quantities available, prices, offers and also the amount of money that the customer saves.

The call centre agents have all the knowledge about the product, i.e., the product features, its quality, its uses, etc. Thus, they are in a position to inform the customers correctly about the various aspects of the products that are being ordered. In case of any product not being in stock, the call centre agents are immediately informed about it, so that they can suggest alternative products to the customer. The order is delivered at the customer's house at the time convenient to the customer, free of cost. Not only does this process put the customer at ease, it gives her the much-needed convenience as regards both of time and place.

The Processing of the Order: Once the order is confirmed and the customer decides the time of delivery, the order is forwarded to the warehouse department. This department is responsible for getting the order ready for despatch. This department prepares a list of the items in the product and gives it to a person who does the "shopping". The warehouse is very methodically designed. There are different markings for different racks for easy

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identification of the items. So the "shopper" moves around the warehouse picking up the items in the list. At the end, an invoice is prepared and the items are packed in totes and then sealed.

Despatch Operations: Once the list is given to the "shopper", the orders are sorted according to the area of delivery and by the time of delivery. Once the totes are packed and sealed, they are arranged in the despatch centre according to the different areas of delivery. The despatch centre is very well organised, by way of separate markings for different areas of delivery.

Central Bazaar has an efficient team of delivery vans and drivers at their disposal and also a very efficient team of delivery boys. They are provided with proper training as to how to deal with customers, the different modes of payment, and the different coupons acceptable by Central Bazaar, etc. They are regularly evaluated on various parameters like politeness towards the customer, cleanliness of merchandise and service delivery, consent to keep the items, the ability to satisfactorily respond to the queries of the customers, etc.

Delivery Operations: The orders are loaded in the vans according to the knowledge of the drivers about the respective areas. This saves a considerable amount of time required to search for the correct address. Thus the delivery reaches the customer's house on time. The mode of payment is either by cash or credit cards and that too only at the time of delivery.

The Advantages of Central Bazaar: The format had many apparent advantages:

For customers:

- ***24x7:*** It was designed to be a genuine 24 hours, seven days-a-week shopping experience. This gave the customers a unique option - especially those who did not want to be tied to the commercial establishments' framework. It was a promise of genuine empowerment.
- ***Impersonal:*** Shoppers, especially women, were embarrassed to ask the kirana store keeper for personal hygiene products like sanitary napkins, contraceptives, and inner wear. The Central Bazaar format of ordering on the phone or through the web made it impersonal and avoided embarrassment for the shoppers.
- ***Shopping Assistance:*** The call centre had agents who were trained to provide all assistance to buyers. To help deal with any first time apprehensions, Central Bazaar can also send a customer service agent to a customer's house to help set up an online shopping service facility that was fully customized to their individual needs.
- ***Home Delivery:*** Central Bazaar catered to convenience shopping, with the facility of ordering from home coupled with free home delivery. This was especially useful in Bangalore and Chennai, where, due to overt dependence on public transport such as Rapid Mass Transit System (commuting electric train service!), it was next to impossible for the customers to shop and then carry the bulky parcels home during the rush hour.
- ***5000 brands:*** The electronic retailer, with over 5000 brands, offered a wide choice of varieties and assortments of products, to cover the widest possible customer base. It also was the intention of the retailer to be a one-stop-shop for home products.
- ***Special Promotions:*** Central Bazaar offered not only the usual promotions of the FMCG vendors but also its own store promotions. This helped in not only setting the tone of differentiation amongst other retailers but also in communicating its enhanced value propositions.

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- ***EDLP:*** The pricing strategy of Central Bazaar was Every Day Low Price, meaning that all merchandise was available every day at a one per cent discount to maximum retail price (MRP), and unbranded goods at a five per cent discount to existing rates. This was a competitive advantage on price that was hard to ignore.

For Central Bazaar:

- Adapting to the changing demographics of family, gender, income, occupation, education, etc. Urban India in general and Mumbai in particular, has been witnessing perceptible shifts in its demographic profile. Joint families are giving way to nuclear families for various reasons:
  - *Lack of living space:* With increase in family size across three generations, it was about time for the new family to relocate itself.
  - *Job opportunities:* The new generation got a job in another part of the megalopolis, and preferred to stay close to the work area instead of commuting. New Bangalore was a classic case. It was fast becoming an institutional hub for BPOs, educational institutions and, of course, IT companies.
  - *Individualism:* The new generation and the new family were reluctant to conform to the joint family code and sought a greater degree of individual expression in respect of food, interior décor, child rearing as well as lifestyle.

Additionally, women were joining the workforce in larger numbers. Dual income meant not only more scope for conspicuous consumption, but also less time for leisure and shopping. The convenience offered by online shopping was irresistible, freeing time for leisure and self developmental activities. This new generation customers were more educated and aware, and recognised brands and their promise better than the previous generation. They did not feel the need to compare shopping products and were comfortable ordering through the phone or net.

Central Bazaar felt that they were offering the market just the right kind of format, considering the changing demographics. With the family spending more time in their occupation, commuting, and lifestyle changes, ordering on the phone was one more of the adaptive behaviours.

- ***Escaping the location trap:*** "Location, location, location" was the call sign for any retailer. Its decisive competitive advantage lay in the right location choice, which brought in the much sought after footfall and took advantage of the "traffic". Location by defining the catchments area for the store was a strategic issue. Central Bazaar escaped the location trap by being "accessible" 24 × 7 to all people in the designated suburbs of Mumbai: a phone call or a "click" was all it took to order, and the merchandise was delivered by the retailer's vans right at the doorstep.
- ***No inventory:*** Central Bazaar does not exactly escape the inventory trap, but manages to do better than other offline stores. It has a huge godown and warehouse, where it stocks its 5,000-brand merchandise line-up, and from which its "pickers" select the order items. What it escapes from is expensive interior décor, visual display and merchandising, shoplifting, etc.
- ***Micro marketing:*** The delivery system enables Central Bazaar to get close to the customer's living environment for further interactions and micro marketing. The sales call can become customised and the customer's eyeball and attention can be garnered exclusively and qualitatively for effective marketing and relationship building.

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- ***Customer psychographics:*** Receiving orders on the net or through the phone and delivering the merchandise to their homes gives Central Bazaar an incomparable advantage over other retailers in customer analysis. It has access to hitherto unavailable data on the customer, including not only his demographic profile but also his psychographics. Central Bazaar can now track the customer's purchase patterns, know his preferences, and get a glimpse of his perceptions, personality as well as his attitude. This would undoubtedly make him tailor and customise his retail marketing, including merchandise and promotion offers, retail communication, and other value-added services.

Problem for Central Bazaar

Mr. Joseph Mathew, General Manager, Central Bazaar had a problem. He wanted, with evangelical zeal that the unique service format should succeed. He not only wanted Central Bazaar to have a distinctive market presence and mind share but also garner revenues, market share and market size. He fully understood that there existed a linear relationship between customer satisfaction and profitability. He dreaded the possibility of having dissatisfied customers; but he was more scared; by the fact that he had no way of accessing basic data about the dissatisfied customers; such as:

- Who they were
- Which aspect of Central Bazaar's service they were dissatisfied with
- the degree of their dissatisfaction

Also, he realised, ensuring consistent service delivery implied was a way towards the quality goal. His biggest problem was not only in measuring the quality of service delivery, its consistency and customer satisfaction at Central Bazaar but also in finding comparable benchmarks. He knew that customers compared stores, formats and different aspects of the service retail-mix like merchandise, locations, layout, promotions and other communications and the behaviour of the retail personnel. He also knew that this comparison was crucial in building their preferences. Central Bazaar was a unique e-tailer, with no known direct competition. He was up against retailers with different formats - supermarkets, kirana stores and discount stores - but fighting for the same customers' share of wallet and heart share. The undeniable fact was that the shopping experience in Central Bazaar was definitely different from that of other "offline" format stores. 'How do you compare oranges with mangoes!' he thought.

Question

Can you find ways and means to measure quality in intangible offerings like services?

Self Assessment

Fill in the blanks:

5. In a restaurant, rock music is being played but it's quite possible that many people don't like it. This might lead to Gap……
6. An educational institute has by mistake printed the wrong telephone numbers on its pamphlets. This may nonetheless lead to Gap…….
7. A Club is giving free passes for a *gazal* concert to all its lifetime members. This type of promotion is called …… marketing.
8. The conflict between whether to go a particular restaurant or not may lead to …… gap.

Notes

9. A company advertises that exotic holidays at just ₹.9999 per person for the employees who sell packages worth ₹ 2, 00,000 or more is …… marketing.

10. …… model focuses on the internal customers more than operations.

11. Critical incidents or service encounters are also called ……

12. …… is a measure of the degree of probability of the product delivering what had been promised.

6.3 Importance of Quality

The importance of quality can be assessed by going though the following points:

- ***Lower Costs:*** Higher quality of services imply fewer mistakes for any repeat tasks, service recovery exercises or refunds to disgruntled customers. Preventive and corrective measures through quality control processes lower costs and increases productivity.
- ***Immune or Less Vulnerable to Price War:*** Service firms known for their high quality services have an additional differentiating attribute and can avoid the service commodity trap. They can afford to have a higher price as they offer more benefits than the competition.
- ***Higher Customer Loyalty:*** As mentioned in the previous unit and section, service quality ensures customer satisfaction that drives customer loyalty and enhanced profits.
- ***Higher Market Share:*** Loyal customers contribute to positive word-of-mouth publicity (the 'buzz effect'), which broadens customer base with minimal costs.
- ***Loyal Internal Customers:*** The previous unit has explored the linear relationship between happy employees and customer loyalty, and a firm's profitability. Employees become proud of the firm for which they are working; having a sense of belonging is known for inspiring and delivering high quality services. Lower attrition level lowers manpower and training costs and the service firm can leverage on the knowledge and skill of its employees.
- ***Higher RoI:*** The service-profit chain had established in the previous unit that high quality services contribute to higher profitability.

Self Assessment

State whether the following statements are true or false:

13. A service firm that provides high quality services can afford to have a higher price as they offer more benefits than the competition.

14. Loyal customers contribute to positive word-of-mouth publicity.

15. Higher the quality of services provided by the provider, higher will be the attrition rate with the provider.

6.4 Summary

- In manufacturing, quality is defined by the degree of compliance between stated goals and achieved targets. It is therefore rather easy to measure and conform to a standard.
- In service it becomes difficult to comprehend the concept of quality and measure it. This is due to the mother of all characteristics for services – the intangibility factor – and it makes measurement and assessment of service quality extremely challenging.

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- Quality in service has two-window viewpoints: internal and external to the service firm. Internal quality is all about the entire service delivery process—from concept to encounter/experience/transaction/consumption and external refers to the customer expectations.
- The Gap model can help a firm desirous of improving service quality to focus better on its strategies and service processes. This model can not only be used to find and identify areas in service delivery and designs but also measure and monitor quality in service. It consists of two types of gaps- consumer gaps and provider gaps.
- Customer Gap is the gap between customer expectations and customer perceptions. This, in other words, is the service quality shortfall as seen by the customers. Customers develop expectations from receipt of external stimuli from many sources - ranging from those that are company-controlled to social influences.
- There are four provider gaps and these in sum total are the cause of the Customer Gap. They are the shortfalls within the service firm.
- Gap 1 is the customer expectation and management perception gap, Gap 2 is the management perception and service quality expectation gap, Gap 3 Service quality specifications and service delivery gap and Gap 4 is the service delivery and external communications gap.
- The Industrial Management Model is an approach to organizing a firm that focuses on revenues and operating costs and ignores the role personnel play in generating customer satisfaction and sustainable profits.
- The Market-focused Management Model focuses on the components of the firm that facilitate the firm's service delivery system. It proposes that the firm should be supportive of those personnel who serve the customers and interact with them.
- SERVQUAL method says that customer expectations can be judged based on following factor: responsiveness, assurance, tangibility, empathy and reliability.
- The importance of quality in services finds its base in lowered costs, higher customer loyalty, higher market share, loyal internal customers and higher ROI.

6.5 Keywords

Customer Gap: gap between customer expectations and customer perceptions

External Marketing: communication between company and customers

Interactive Marketing: communication between providers and customers

Internal Marketing: communication between company and providers

Moments of Truth: interaction between the provider and customer

Provider Gap: gap form provider's side, cause of customer gap

Quality: totality of features of service that bears on its ability to satisfy given needs

***SERVQUAL*:** gives factors that affect customer expectations

Transcendental Quality: it can only be experienced not described

***User based Quality*:** defined form customer's perspective

Value based Quality: equates quality with value

Notes

6.6 Review Questions

1. Explain how intangibility poses problems in measurement of service quality. Give examples.
2. "Marketing myopia might creep in and make management blind". How does it relate to service quality?
3. In services, perceptions are everything. Do you agree? Support your answer with valid proofs.
4. Suppose you are the marketing manager of an airline company. How will you differentiate between the factors that provide satisfaction and those that imply quality? Is there any distinction at all?
5. Take example of any two services and explain the customer gap.
6. Critically assess the usefulness of the Gap model for measuring quality in the hospitality industry.
7. Discuss the loopholes in the industrial management model. Does the marketing model help overcome those loopholes?
8. "It is very important to communicate firm's strategies to both, internal and external customers". Explain with examples.
9. Discuss the service encounters in airline industry. What can be the possible problems with each encounter and how can they correct it?
10. "Services marketing is a game of 'promises' played amongst three entities". Comment
11. How can you link service quality with internal and external customer loyalty? Explain with examples.
12. Suppose you are the marketing manager of a counselling services firm. How can you use the gap model for service quality? Suggest ways to close each gap.
13. Suppose you are the marketing manager of a social club like Country Club. What factors will you keep in mind to meet customer expectations? (Use SERVQUAL method)

Answers: Self Assessment

1.	b	2.	d
3.	a	4.	c
5.	1	6.	4
7.	External	8.	Customer
9.	Internal	10.	Market management
11.	Moment of truth	12.	Reliability
13.	True	14.	True
15.	False		

6.7 Further Readings

Notes

Books

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US

Valarie A Zeithmal and Mary JO Bitner, *Services Marketing: Integrating Customer Focus across the Firm*, Tata McGraw Hill, New Delhi

Online links

www.cost280.rl.ac.uk/documents/.../documents

www.qualitydigest.com/html/qualitydef.htm

www.sunway.edu.my/others/vol4/service_quality.pdf

www.comsoc.org/~cqr/FAE_Docs/A1.../sv1quality

www.degromoboy.com/cs/gap

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Unit 7: Service Segmentation and Targeting

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Objectives

After studying this unit, you will be able to:

- Describe the concept of market segmentation
- Identify the basis used for segmentation
- Contrast differentiated and undifferentiated marketing
- Realise the concept of target marketing

Notes

Introduction

One cannot be everything to everyone;

But one can be everything to a select few.

—*Michael Porter*

After analyzing the consumer and his buying behaviour, the service marketer usually comes to the conclusion that it is not possible or desirable to address the whole market with his offers. The decision for the service firm is to choose its markets, and target them with its service offers. The process of identifying market segments, selecting one or more of them and developing a marketing mix to meet their needs is known as target marketing.

Apart from targeting, assigning a draft of the service delivery to the target audience is also necessary. In this unit you will learn how service marketers segment the market and choose their target audience.

7.1 Market Segmentation

Market segmentation is a process of dividing a heterogeneous market into homogenous sub-units, concept that was first developed by a Wendell R. Smith in a paper in 1956. It is defined as dividing a market into distinct groups of buyers with different needs, characteristics, or behaviour who might require separate services or marketing mixes.

A market was analyzed for its nature and composition, and was clubbed under groups of similar needs and other characteristics. Customers inside a grouping had similar preferences and traits; two different groups had different preferences and traits. Each of these groupings was called a segment, and the process was known as market segmentation.

7.1.1 The Diaspora Effect

Since pre-historic times, men (or even proto-men) constantly moved from one place to another. They did so for the following reasons:

- ***Pull factors***: This is the 'fatal attraction' that the people might have for a place due to perceived higher greater opportunity, higher quality of life, etc.
- ***Push factors***: People move by compulsion, due to natural calamities like flood, drought, famine; political upheavals like Partition, ethnic 'cleansing' of Kashmiri pundits, etc.

But with these movements, the composition of the market gets distorted, and keeps changing. This makes a constant study of the market very necessary for the marketer; and provides another reason for market segmentation.

7.1.2 Effective Segmentation

The segments should be:

- ***Measurable and obtainable:*** Size, purchasing power, and characteristics of segments
- ***Accessible:*** The segments should be effectively reached and served.

Example: Questions like this keep cropping up: "Will it be possible for us to communicate and serve the people of the North-East if and when we open our branch there?"

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- ***Substantial and Viable:*** The segment chosen should be large and profitable. It should be cost-effective for the service marketer to address the segment.
- ***Intensity in Competition:*** More the intensity of competition, less attractive is the segment.
- ***Actionable:*** If the segments are attractive and have the potential for profit making, then effective marketing programmes can be designed.

Example: NIIT found that the Chinese market had huge potential and designed innovative marketing programmes to serve that market.

- ***Differentiable:*** The segments should be distinct from each other, behaving and responding differently. Or else, the process becomes like Undifferentiated Marketing.

Caselet **Market Segmentation for Mobile Banking**

It is absolutely true that mobile banking is experienced different from one market to another. It is often the source of a lot of confusion when different people discuss mobile banking from different contexts. Before we discuss mobile banking it is therefore important to first define the markets that one target when deploying mobile banking.

The most obvious first segmentation of the market for mobile banking is to look at those consumers with a strong, existing relationship with banks, and those that do not have a relationship with a bank. This segmentation should range from some-one without any banking relationship (some-one that does not have a bank-account and also never had one), to (on the extreme right) a sophisticated user of banking services. This would typically be some-one with a relationship with more than one bank, have multiple bank accounts and/or credit cards.). Another dimension should be an indication of the degree in which a consumer is connected to other consumers. Some consumers because of their work or role in society have a bigger need to interact with a more diverse group of consumers, others are much more localised in their interaction.

In looking at the different segmentations, one would be able to identify an individual that are typically employed in a low income position or survives off grants, pensions or money sent from family working in the city or abroad. Life's routine is predictable for this individual with activities organised around the work and family. The rural citizen would typically live in a low cost abode. Credit worthiness is low with access to expensive micro lending as a source of lending only. All transactions are in cash and almost no savings exist. This is an individual that either living in a village in some rural area or in slums in or around cities. These people are the masses that turn the economy with their labour. Their need for banking services is limited to small savings, money remittance and some electronic payments. They usually get access to these financial services in a very expensive way, often with high risks as all of their transactions are in cash. They are often referred to as the bottom of the pyramid, but yet they are active in the economy and represent a large portion of the population in many countries and can be reached by mobile banking with the right product or service.

Another segment would consist of individuals that are much more affluent. They are the people that always have the latest gadgets and are more expansive in their exposure to financial products. They typically have the latest phones, have more than one bank relationship and travel extensively for work and pleasure. Their assets include stocks and bonds and they use the Internet extensively to transact electronically. They are often aware of transactional risks associated with card transactions and the Internet and are often uncomfortable about their exposure to fraudulent activities. In addition to providing

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more control and improved security, mobile banking also delivers an alternative mechanism for the Power User to pay. Transactions not usually available can now be performed. Some of the transactions that the Power User requires and now becomes available are person to person payments, proximity payments, enhanced security for "card-not-present" transactions to name a few. All of these features are available in some format or another.

It is clear that different market segments would require vastly different mobile banking offerings.

Source: www.mbanking.blogspot.com

Self Assessment

State whether the following statements are true or false:

1. The consumers in a segment have similar preferences and lifestyles.
2. Market should be segmented in a way that each segment is accessible and measurable.
3. More intense the competition, more attractive will be the segment.

7.2 Bases for Segmenting the Service Consumer

A service marketer can segment the market on the basis of demographics, geography, psychographics and behaviour.

7.2.1 Demographic Segmentation

Demographic segmentation can be done on the basis of age, gender, family, income and education.

Age

It is generally believed that people belonging to the same age group act or behave in similar manner and they have specific needs and desires. Service marketers believe that as a person grows up in age, his needs and wants also change. Along with this, their ability and capacity to process information also changes.

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Illustration of Age Segmentation

Infants' market—from newly born - up to 1 year: Nursing, full-time nursemaid,

Child market—1 year to 12 years: babysitting, crèche, play-schools, day-care centres, tuitions, 'Sesame Street', schools, 'Kids Kemp'

Adolescents' market—13 years to 16 years: counselling, dental care,

Teens market—13 years to 19 years: MTV, discotheques, sports, tuition, and entertainment

Youth market—20 years to 35 years: MTV, nightclubs, sports clubs, package tours, 'Barista', pubs

Middle-aged market—36 years to 50 years: Health and holiday spa, clinics, hospitals, resorts, leisure, marriage counselling,

Elders/seniors market—51 years +: Healthcare, pension funds, housing, recreation, physiotherapy.

Notes

Gender

Marketers can also segment the market on the basis of gender. They can design services specifically for a particular sex or both the sexes.

Example: For ages beauty parlour services were meant only for women or gymnasium only for men.

As there is an increase in travelling of businesswomen/working women across the globe, the hospitality and tourism industry has geared up to cater to their specific needs like comfort, security etc.

Family

The size and the structure of the family is also an important consideration while segmenting the market. With changing times, the focus is fast shifting from joint families to nuclear families. But still joint families are an area of interest for the marketers. They can specifically design their services to cater to the needs of families with 3-4 members with enough flexibility to serve more members if required.

Example: A restaurant can plan their seating arrangement so that each table can accommodate four members but they also have the provision for larger tables which can accommodate more members.

With the growing urbanisation and increased job and education opportunities, people are moving from rural areas or small towns to cities and most of them settle down there only. There is also an increase in families where both the parents work and children stay at home. Service marketers have taken a note of all these things and have designed their offerings accordingly.

Example: There is a sudden increase in day care centres-cum-play schools like Kidzee, Mother's Pride, etc. to take of children while their parents are away.

Tour operators like Thomas Cook and Cox and Kings have special packages for nuclear families

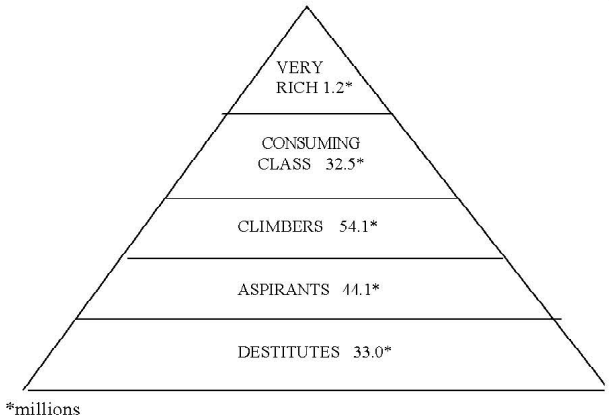
Income

It is one of the most important bases of segmentation as income determines the purchasing power of the individuals. It is generally observed that as income increases, people tend to send more on luxuries and specialized services. This segmentation is more relevant when family income is considered rather than individual income as more and more families are becoming dual income families.

Example: As income increases, people will be attracted towards health clinics like VLCC and spas and salons. They will also be attracted towards travel and tourism.

Notes

Figure 7.1: Segmenting the Indian Market by Income



Source: NCAER, IDR, 1998, p. 63.

Education

Another factor that determines the needs and wants of the consumers is the level of awareness and knowledge, which in turn depends on the education level.

Example: An uneducated person might not understand the cellular services available in the market.

7.2.2 Geographic Segmentation

Under geographic segmentation the market can be segmented on the basis on countries, states, cities, districts, urban areas, rural areas, etc. A region can be divided into north, east, south and west. Countries have different gross domestic product, per capita income, standard of living, lifestyle, culture, values, etc. All these things have to be considered while developing markets segments. Markets can also be segmented on the basis of population and climatic conditions. All these considerations are kept in mind while designing services or products for segments. In Addition, marketers should also analyse the behavioural changes of the population that has migrated.

Example: A tour operator can promote tour packages for hilly areas like Switzerland or Canada to people in hot and humid regions like Middle-East.

7.2.3 Psychographic Segmentation

The marketer has to find out the basic characteristics which could influence the purchase decisions of the individuals. For this, marketers can segment the market on the basis of lifestyles and personality.

Lifestyles

The buying behaviour of individuals is largely influenced by their lifestyles. While segmenting the market on the bases of lifestyle, marketers gain a sound understanding of customer's way of life, their activities, interest, opinions, beliefs and values. All this information will help the

Notes

marketers to design their services. This segmentation also helps in determining the effective marketing mix.

Example: A young student would want to eat a lot of fast food, so outlet like KFC and Pizza Hut can target them.

Mature people (50+) like to meet each other socially over drinks, so they like to members of social clubs.

Personality

Service marketers can also design services depending on various personality types. Personality refers to special character traits and each person has a unique personality. And their unique personality forms the basis of their unique needs and desires.

Example: A person who is an introvert and likes a relaxed atmosphere would prefer a restaurant with serene and quite atmosphere were very soft music is being played whereas an extrovert would like to visit a restaurant with very lively atmosphere.

7.2.4 Behaviouristic Segmentation

This type of segmentation would depend upon:

- Occasions when used - an anniversary dinner at a restaurant.
- Benefits - this segmentation is credited to Russell Haley and analyses why consumers buy what they buy.
- Usage frequency (heavy or light - mobile phone users)
- Attitudes – favourable or unfavourable disposition, including loyalty.
- Motivating factors - Maslow's Need Hierarchy model, et al.
- Values.

Task Make a note of few services or service offers that segment on the basis of culture, lifestyles, benefits, usage rate and income.

Self Assessment

Multiple Choice Questions:

4. A credit card company is most likely to segment the market on the basis of which of the following variables?
   (a) Age
   (b) Benefits
   (c) Geography
   (d) Lifestyle

Notes

5. Which of the following statement is not true?
   (a) Markets can be segmented on the basis of climatic conditions
   (b) Markets can be segmented on the basis of status of the user
   (c) Marketers can target multiple segments simultaneously
   (d) Marketers can use only a single base for segmenting a market
6. Which of the following is not an attribute used to segment the market under behaviouristic segmentation?
   (a) Occasion
   (b) Education
   (c) User frequency
   (d) Attitudes

7.3 Steps in Market Segmentation

Marketers use the following procedure for segmenting the markets:

7.3.1 Identifying Customer Segments

The first step in the process of market segmentation is to identify the customer segments using any of the bases discussed above or a combination of the bases. Customers can be identified on the basis of geographies, demographics, psychographics, or behaviouristic characteristics. The marketer should determine the basis for segmentation based on the area of business.

Example: If the marketer is in the business of insurance, he can opt for demographics or behaviouristic characteristics (benefits) as a basis for segmentation. In this case, using geographies 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.

Example: When hospitality services firm segments the market based on income and lifestyles and realizes that more and more upper middle class and upper class families are opting for their services; it can plan to cater to this segment by opening a spa and health gym facilities.

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.

7.3.2 Develop Measures for 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. Analyzing each segment on these bases will help the marketers to choose and invest in those segments which have great potential to produce profits for the firm in future.

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Example: A fashion counsellor can look to target more and more men as men are increasingly becoming fashion conscious.

7.3.3 Selecting Customer Segments

This is the last step 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.

Example: The insurance services firm targeting the old people should design retirement benefits plans or after retirements plans to cater to their needs.

Case Study

State Bank of India: Segmenting the Market for Competitive Advantage

1972, State Bank top brass were in deep trouble - of a different kind. There were no external threats like takeovers (remember, it was the socialistic 70s and the only threat actually comes from the government in the form of nationalisation, and it was already the owner), nor from any major regulations or from any competitive product or system innovations.

The top brass realized that the country's premier bank was suffering from itself! It was not effective and beginning to go out of control. They went to the country's premier business school, Indian Institute of Management, Ahmedabad (IIM-A) to pin-point the disease as well as get workable solutions. Those were the days when it wasn't fashionable for corporate India to go to the Big Three accounting and consulting firms!

SBI got value for its money. IIM-A diagnosed the problem as one of uncontrolled growth, without any focus, being driven by government agenda, and especially had no idea about its myriad customers and markets.

The bank had come to occupy a significant position in the country's fortunes, affecting and touching the lives of millions of people. Started as a clutch of Presidency Banks, they were merged to form the Imperial Bank of India and then adorned the garb of its present avatar in 1955 as the government's bank. It (and its seven subsidiaries – later renamed as Associates) was the sole Public Sector Undertaking (PSU) bank, till in 1969 nineteen banks were nationalized. It suddenly lost its USP (ironic that at one time being associated with the government was a USP!) - there were now twenty government owned banks, with the same trusts and guarantees that goes with government ownership, as also bad service. They all grew frenetically and they all offered the same offers at the same rates.

But SBI suffered more because of its size. The consultancy report indicated that the bank had grown so fast and was now so unwieldy that it resembled an octopus that had no idea what its tentacles were doing. But the solutions offered by the two consultants were different, reflecting the difference in geopolitical realism. Ironically, three decades later, the two giants in their own fields were again facing problems - of another kind. IIM-A's solutions were: focus on customer, more decentralisation and a matrix structure. It recommended that the entire activities of the bank should be geared towards the customer and its structure and functions should be based on the customer profile. Previously SBI

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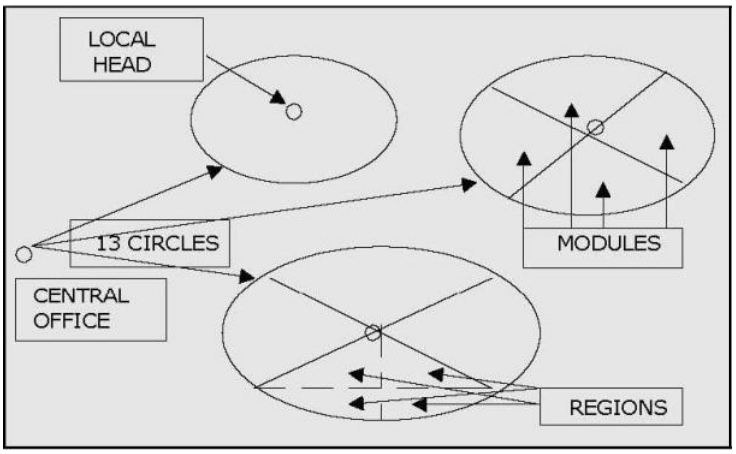
had regional offices all over the country, which were monitored by the head office at Mumbai, then Bombay. Now it was told to segment the market and restructure accordingly.

Restructuring

SBI did a massive restructuring exercise which ran the length and breadth of the bank. Its restructuring was in synchronisation with the segmentation principle with multiple bases, which would give it more focus, accountability and help recharge the financial behemoth.

- **Geographic:** It divided itself into 'Circles' each monitored by a Local Head Office (LHO). The 'Circles' were segmented into politically contiguous areas based on states. Thus Bhopal Circle had its LHO based at Bhopal and covered the whole of erstwhile Madhya Pradesh and now includes both MP and the newly hived off Chhattisgarh; Bhubaneshwar Circle consisted of SBI branches in the state of Orissa while Hyderabad Circle had the state of Andhra Pradesh as its domain etc. Smaller states were clubbed with larger states to be monitored from the same LHO. Thus Goa came under Mumbai LHO while Kolkata LHO monitored Sikkim and Andaman and Nicobar Islands and Delhi LHO controlled Delhi (which itself had over 240 branches!), Haryana, the whole of Rajasthan and parts of western Uttar Pradesh (UP), etc.
- **Further geographic segmentation:** Each 'Circle' was further subdivided into four 'Modules' and each 'Module' controlled four 'Regions'. Thus Bhopal Circle was divided into four 'Modules' which were named after the town in which the Module offices were situated: Bhopal, Jabalpur, Raipur and Gwalior Modules. Each of the Modules had four 'Regions' - numbered I to IV. Thus Jabalpur Module in Madhya Pradesh would have Region I consisting of branches in Jabalpur District and town; Region II would consist of Mandla, Seoni, Balaghat and Narsinghpur Districts; Region III would be the northern districts of Rewa while Region IV would be the eastern coal belts of Shadol, Sarguja, etc.

Exhibit 7.1: The Organisational Structure of SBI



- ***Administration, Empowerment and Internal Customers:***Every LHO was headed by a Chief General Manager (CGM) who controlled a bank territory equivalent to any of the nationalized banks. Thus while Canara Bank had about 600 branches all over India Bhopal Circle itself had about 550 branches! The CGM of a LHO was thus empowered like any other public sector bank Chairman and CEO. The CGM was assisted at the LHO level by two General Managers - GM Operations and GM Planning. The CGM

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had almost all the powers of the Chairman and Managing Directors of a nationalized bank and usually headed for an MD's post next. Every Module was headed by a Deputy General Manager (DGM) who was assisted by a team of four Regional Managers (RM), each heading a region. There were some branches which were so big that it required very senior personnel who were equivalent in rank to the RMs; they came under the direct control of the DGM. Thus Jabalpur Main Branch was headed by a Chief Manager, who was in the rank of a RM and came under the control of the DGM, Jabalpur Module. With this structure there was greater empowerment, more focus and the issues were sorted and solved at the LHO level.

- ***External Customers and the Branch:*** Every branch was divided according to the type of business that they handled. In other words, division at the branch level was by the types of customers that they dealt with. Thus a typical SBI branch was divided into the following divisions:
  - Personal Banking Division (PBD) which dealt with individual customers and their personal banking needs like deposits, cash withdrawals, fixed deposits, remittances, loans against deposits, etc.
  - Small Industries and Business Division (SIB) which dealt with the needs of the small business like cash credits, overdrafts, loans, etc. In the eighties, any enterprise whose turnover was less than 20 crore rupees was termed Small Business.
  - Commercial and Institutional Banking Division (C&I): This dealt with the banking needs of large institutions (like IIM-A) and corporations (like Indian Oil Corporation). Their banking needs would include term loans, working capital, non-fund based business like Letters of credit and Bank Guarantees, etc. Initially, a Foreign Exchange Cell functioned under C&I Division, handling all Forex business. It was merged with a new nomenclature: Institutional Banking Division (IBD) and Commercial Division. There were exclusive Service and Commercial Branches to cater to the cheque collection and clearing businesses.
  - Agricultural Banking Division (ABD) handled all banking needs of the farmer like crop and farm equipment loans, savings and fixed deposits etc. There were exclusive Agricultural Development Branches (ADBs) to only cater to the needs of the farmers, situated in agriculturally well developed areas.
  - Accounts Division handled all the administrative functions of the branch including Cash Section.

Exhibit 7.2: Different divisions in a typical branch of SBI: Customer Orientation

COMMERCIAL & INSTITUTIONAL DIVISION	AGRICULTURAL BANKING DIVISION	ACCOUNTS DIVISION
SMALL INDUSTRIES BUSINESS DIVISION	PERSONAL BANKING DIVISION	

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The segmentation of the market on different bases and the resultant reorganisation of the banking behemoth towards addressing the chosen segments did make it effective. Up and down the chain in SBI, the staff had clearer idea of the business and the wherewithal to deal with management issues:

- At the branch level the staff could address their customers who trooped into their divisions appropriately. Even with limited staff, with no computerisation to speak of, they were able to deal with the customers' needs.
- At the Regional Office level, the managers had better idea of different businesses and the performances at different branches. They could now know with certainty, for example, that at SBI Nagda, Ujjain, MP there was more non-fund business in the form of Letters of Credit and Bank Guarantees coming from the Viscose Staple Fibre business of Grasim, the flagship of Aditya Vikram Birla Group in Nagda than savings and other deposit accounts. Appropriate personnel skilled in the respective business could be placed for greater effectiveness.
- At the Local Head Office level, the Circle could function with sufficient autonomy and be as agile and effective as any public sector bank. Thus Bhopal Circle could, after analyzing its truly cosmopolitan staff (it was a joke amongst the staff that MP was better known as Metropolitan Pradesh reflecting its diversified linguistic background), take important steps in developing innovative Human Resource initiatives like Quality Circles, Key Performance Appraisals, Behavioural Science training and other Organisational Development programmes.
- At the HQ, in Mumbai, the Chairman with two Managing Directors reporting to him had a better idea of the monolith's functioning. A lot of path breaking strategic decisions like alliances with General Electric for the credit card business, bancassurance ventures through SBI Life, the formation of SBI Capital Markets, etc., could be taken. With segmentation, SBI could now get a better idea of the size of the market, its unique characteristics and needs. After evaluating and choosing them, it could use its different marketing mixes appropriately to target them successfully. Initially it had one eye-hole view of the market; now, with a better perspective, it was able to address its constituents more efficiently.

Questions

1. Did SBI have to reorganize itself to make its segmentation exercise effective?
2. How could it have used its different marketing mixes to uniquely address the different needs of its customers?
3. Can small service firms, like cooperative banks, go in for segmentation? Explain.

Self Assessment

State whether the following statements are true or false:

7. The marketer should determine the basis for segmentation based on the area of business.
8. Each segment thus formed will have similar preferences.
9. A company should develop its marketing mix keeping customer profiles in mind.

Notes

7.4 Undifferentiated Marketing vs. Differentiated Marketing

7.4.1 Undifferentiated Marketing

This implied that the organisation had only one product and it aimed the product at the whole market. It expected the customers to take it or leave it, since there was hardly any choice in the offer. It never bothered with individual tastes and it manufactured one product for the whole market.

The advantage of this method was that it introduced the concept of mass marketing. A lot of cost was cut in terms of having low inventory, fewer models and there was an economy of scale in the manufacturing process. Cost was reduced successfully. Communication was also not very complicated and mass media was used. The customers looked for their basic, core need to be satisfied.

Did u know? Henry Ford could get away with make the famous statement, "I am willing to sell a car in any colour provided it is black"; regarding his model T which – after 20 years of being in production – accounted for almost half of all the cars sold till then in the world.

Example: In India, a good example would be Bajaj Auto. Before 1982, it offered only one kind of scooter with two different names: Chetak and Super. Chetak was meant for export and was available to a resident Indian only in foreign currency, and Super in Indian currency. And that was its only offer. The consumer had to accept the offer whether he liked the design or not. The Indian consumer had not much quality choices in scooters, and admittedly, Bajaj Auto did manufacture its limited variety of wares with attention to high quality. There weren't too many alternatives; the market was not mature enough to understand the varied depths of its demands. Consumers were passive and undemanding; there was not much competition, even from the other scooter in the market, a clunkier, chain-driven but rugged make called 'Lambretta'.

7.4.2 Differentiated Marketing

After this came the second stage of evolution of marketing. With a little more competition, and with the customers becoming more mature, the organisation now introduced slight variations in its product models. But nevertheless it dumped the entire product on to the market. Expecting the market to choose slight variations, the organisation offered the same core product in these variations.

Example: Hero Honda in 1986 had the same core 100 cc, four-stroke engine motorcycle but made cosmetic changes in its designs naming one as Candy model CD100, another as Sleek, and a third as CD100SS. But the core product was the same, and the company expected that the market would have consumers who would make their choices out of these.

The customers were seemingly anesthetized to the fact that the core offer was the same and the variations were mostly cosmetic. There were other organisations, too, that were making use of this particular type of marketing which is prevalent even now.

The next step for the service marketer was to deliver more value to consumers with added benefits commensurate with the identified consumer needs. By doing this, he achieved two ends simultaneously: overcoming the consumer's inherent negative perception of receiving the same core product with mere cosmetic changes — and successfully targeting a broader market base with differential benefits.

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Example: Indian Railways will have a train, say, the Howrah-Bombay Mail, travelling from Chhatrapati Shivaji Terminus, Mumbai to Howrah, Calcutta. The core offer of the train service was transporting people from one place to another. This was the same, irrespective of whether the passenger travelled in a general compartment, Sleeper Class, First Class, A.C. 2 Tier, A.C. 3 Tier or A.C. first Class.

In above example, the customer paid extra for slight variations but the core product was the same. Irrespective of what the customers paid and how they travelled, they all reached their destinations at the same time, at the same place.

The same was true for airlines. In a flight, the passengers could be seated in economy, business and first class sections. But they all reach their destinations at the same time in the same place.

A movie theatre would have sections called Dress Circle, Balcony and Stalls. But the viewers would see the same movie, in the same air-conditioned hall and experience the same ambience. The difference in their ticket prices would be based on the difference in seat cushioning and distance from the screen. Consumers paid more or less according to their different need for peripheral benefits, the differentiated pricing intentionally succeeding in creating social stratification represented by different seating areas.

In Differentiated and Undifferentiated Marketing, the marketer looked for sufficient similarities in the preferences of the consumer. He evaluated the market by the size or number of consumers who had the same preferences, to enable him to sell service products across the whole market.

Task Prepare a report on the segmentation strategy used by any one of the following:

a. LIC

b. Deutsche Bank

c. Vodafone

7.4.3 Niche Marketing

In Niche Marketing or Concentrated marketing or Focus Marketing, the service marketer looked for a very specialized segment. His entire offer – and marketing resources – was tailored towards this very special group of consumers. The size of the market was small, the consumers had very special preferences and there were no other players catering to these customers.

Example: Dilip Chhabria or 'DC' as he is known in India re-designs cars for, and services car buyers who are looking for exclusive designs for the cars available in the market. His company, DC Cars Pvt. Ltd., redesigns the body on the same platform of the vehicles and his service is custom-driven.

Portfolio Management Services (PMS) are given by banks to exclusive customers who want specialized services for their investible funds. No two demands could be the same.

Notes

Self Assessment

Fill in the blanks:

10. If a firm offers the same services to all the consumers in the market, it is following …… marketing.
11. If a service firm targets a group of consumers with Plan A and another group of consumers with Plan B, it is following …… marketing.
12. Concept of …… marketing is a resultant product of undifferentiated marketing.
13. …… marketing is sometimes also referred to as concentrated or focus marketing.
14. A niche market is …… in size and consumers in the market have special needs and wants that the service firm attempts to satisfy.

7.5 Market Targeting

The service marketer evaluates these groups and chooses those groups which it perceives it could cater to with its available resources. If a service marketer chooses only one segment, then it is 'focus' or 'concentrated' marketing, whereby his attention is on a single market, known as a 'niche'. If he chooses a few of the segments, then it is multi-segment strategies, where a series of separate marketing activities is designed for different market segments. A service marketer with deep pockets and other resources addresses himself to all the segments. The service marketer, over the period has come to the realisation that no single offer can satisfy the whole market.

Niche marketing makes a firm use its limited resources optimally; the customers do not suffer from any confusion about the ability of the firm to service them. But with niche strategy, a service firm becomes vulnerable to powerful competitors coming in.

Example: Diner's Club was the only player in the card business in the seventies and early eighties, for a select customer segment. But it was soon overpowered by more powerful players, till it was taken over by Citibank.

Multi-segment strategies are the prerogative of larger service firms, attempting to conquer different segments through different marketing programmes. There is more scope for expansion and growth with this strategy, with the firm reaping the benefits of economy of scale and economy of scope. But it will make the service firm incur higher expenses and will require higher expertise. There is the danger of getting spread too thinly, with the ensuing confusion of the customers.

Self Assessment

State whether the following statements are true or false:

15. When the marketer chooses only one segment to target, it is focus marketing.
16. Niche marketing makes a firm use its limited resources optimally.
17. Targeting more than one segment is the least expensive option.

Notes

7.6 Summary

- The process of identifying market segments, selecting one or more of them and developing a marketing mix to meet their needs is known as target marketing.
- Market Segmentation is defined as dividing a market into distinct groups of buyers with different needs, characteristics, or behaviour that might require separate services or marketing mixes.
- An effective segment is one which is: measurable, actionable, accessible, sustainable, competitive and differentiable.
- There are several ways in which a service marketer can segment the market: demographics, geography, psychographics, and behaviouristic.
- Demographic segmentation can be done on the basis of age, gender, family, income and education.
- Under geographic segmentation the market can be segmented on the basis on countries, states, cities, districts, urban areas, rural areas etc. A region can be divided into north, east, south and west.
- Under psychographic segmentation, the service marketer can segment on the basis of lifestyles and personality. Behaviouristic segmentation can be done based on benefits, attitudes, motivation, usage rate, loyalty, etc.
- There are 3 basic steps in effective segmentation: identifying customer segments develop measures for attractiveness and selecting customer segments.
- Undifferentiated marketing is providing the same service to all the segments and differentiated marketing refers to segmenting the market and designing specialised services for each segment. As contrast, niche marketing to catering to specific needs to a particular segment.
- A service marketer with deep pockets and other resources addresses himself to all the segments. The service marketer, over the period has come to the realisation that no single offer can satisfy the whole market.

7.7 Keywords

Behaviouristic Segmentation: based on attitudes, loyalty, usage rate, benefits, etc.

Demographic Segmentation: based on age, income, gender, education, family, etc.

Geographic Segmentation: based on countries, regions, districts, states, etc.

***Market Segmentation*:** dividing a heterogeneous market into homogenous sub-units

***Niche Marketing*:** catering to a specialized segment

Psychographic Segmentation: based on lifestyles and personality

Segmentation: The process of defining and subdividing a large homogenous market into clearly identifiable segments having similar needs, wants, or demand characteristics.

Target Market: A group of customers that the business has decided to aim its marketing efforts and ultimately its services.

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7.8 Review Questions

1. As a student of marketing, what importance do you attach to segmentation and targeting? Are they more important than deciding the marketing mix?
2. Describe the Diaspora Effect with the help of examples.
3. Suppose you are the marketing head of an insurance company. What factor will you keep in mind while deciding on a particular segment?
4. Do beauty salons segment their market on the basis of demographics or psychographics? Why?
5. Suppose you are the marketing manager of a chain of multiplex. What segmentation strategies will you adopt? What will be the best way, according to you to segment the market?
6. "Unique personality forms the basis of unique needs and desires". What do you mean by this statement? Give examples to support your answer.
7. Consider any one service firm that segments the market on usage rate effectively and design a service plan for them.
8. Differentiated marketing is to customize and undifferentiated is to standardize. Do you agree? Why or why not?
9. "In niche marketing, a service firm becomes vulnerable to powerful competitors coming in". Discuss
10. Why it has become important for any firm to differentiate their products? If you are the marketing manager for a private MBA institute, how will you differentiate yourself from other MBA institutes?

Answers: Self Assessment

1.	T	2.	T
3.	F	4.	(d)
5.	(d)	6.	(b)
7.	T	8.	F
9.	T	10.	undifferentiated
11.	differentiated	12.	differentiated
13.	Niche	14.	small
15.	T	16.	T
17.	F		

7.9 Further Readings

Notes

Books

C Bhattacharjee, Services Marketing, Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US

Douglas Hoffman and John E G Bateson, *Essentials of Service Marketing: Concepts, Strategies and Cases*, 2nd Edition, India: Thomson Asia, 2002

Leonard L Berry, *Great Service: A Framework for Action*, the Free Press

Online links

www.businessplans.org/Segment.html

www.decisionanalyst.com/Downloads/MarketSegm

www.marketsegmentation.co.uk

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Unit 8: Market Positioning and Blueprinting in Services

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Objectives

After studying this unit, you will be able to:

- State the principles of positioning
- Identify the positioning bases
- Discuss the positioning process
- Describe the concept of service blueprinting

Introduction

The marketers segment the market and choose segment/s which they are going to target. The chosen segment is to be targeted for customer acquisition and retention. Positioning is the perception of a brand or product it brings about in the mind of a target consumer and reflects the essence of that brand or product in terms of its functional and non-functional benefits as judged by the consumer. As markets become more crowded and competitive with similar types of products, consumers rely more on the product's image than on its actual characteristics in making their buying decisions.

The right positioning is probably more important to the ultimate success of a brand than are its actual attributes. Marketers sometimes assign different images to the same product or service in different market segments or at times, reposition the same product without actually making it

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any different physically. In this unit, you will learn how marketers position their services in the minds of the target consumers.

In this unit, you are also going to learn about service blueprinting. A service blueprint describes a service in enough detail to implement and maintain it carefully. Blueprinting can be described as mapping out of a service journey identifying the processes that constitute the service, isolating possible fail points and establishing the time frame for the journey. In simple words, it depicts the service process.

8.1 Market Positioning

Positioning is a battle for the consumer's mindshare. After segmentation and targeting, it is the third and final step of the much talked about STP process. For positioning to be successful, customers have to be persuaded that the service offer is unique in features, value and benefits. The offer, thus, has to be positioned in their minds to enable them to recognize the offer as distinct from the crowd and to be persuaded that the offer is the best offer for them.

8.1.1 Four Principles of Positioning

The four principles of positioning are:

1. A service firm must position itself in the target segment's mind.
2. The position should be singular, with one simple, consistent message.
3. The position must set the service firm and the service product apart.
4. A service firm cannot be all things to all people; should focus on certain segments.

8.1.2 Positioning and Differentiation of the Service

- **Positioning by Attributes**: A service provider positions the service based on some unique feature or attribute.

Example: Reliance Communications positions itself as the No.1 network in India

Allahabad Bank positions itself as the oldest bank in India

- **Positioning by Benefits**: A service can be also being positioned based on the benefits sought by the consumers. Consumers usually tend to analyse the benefits of the service before using it so this type of positioning may work well.

Example: Insurance companies mostly position on benefits like Max New York Life Insurance positions itself by saying 'karo jyada ka irada'.

- **Positioning by User**: The services are also positioned for specific types of users groups.

Example: MTV positions itself as a channel for youngsters

- **Positioning by use**: Service is positioned as the best option for a certain use or application.

Example: SBI positions itself as the best bank for seeking educational loan Citi Financial positions itself as bank which processes loans quickly and without hassles.

- **Positioning by Competition**: Services are positioned as against the competitors.

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Example: Avis positioned itself against Hertz by saying that 'We work harder'. Hertz replied by saying that 'We are hertz, they are not'.

- **Positioning by Service Category**: The service provider positions itself as the category leader and becomes inseparable with service.

Example: Xerox is the leader in photocopiers, so much that mostly people refer to photocopy as Xerox.

- **Positioning by Price**: A service can also be positioned based on particular prices.

Example: Wal-Mart positioned itself by saying 'always low prices'

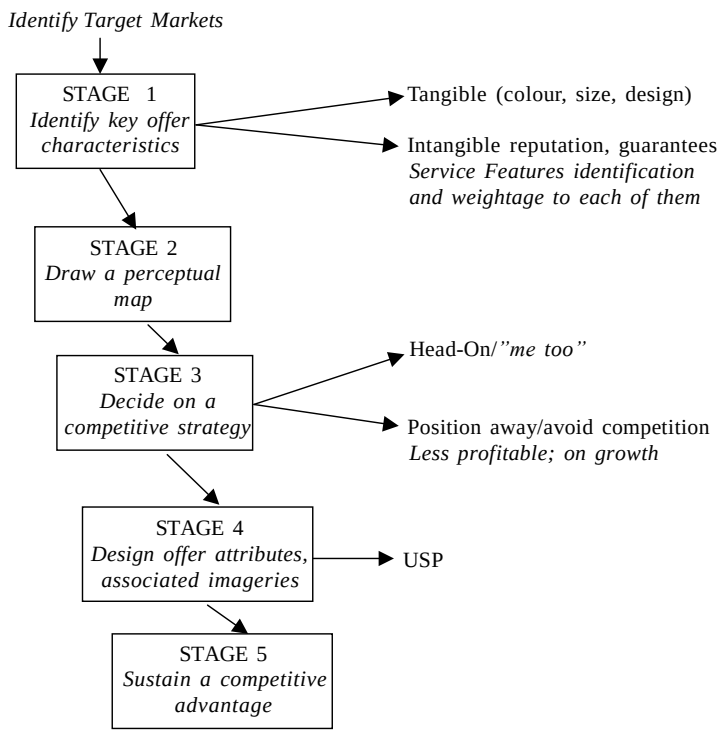
- **Positioning by Quality**: A service can also be positioned on certain quality standards.

Example: The Oberoi-Hilton hotels positioned themselves as high quality high price hotels.

Task Collect ads of services that have positioned themselves well on the basis of price, benefits, competition and quality.

8.1.3 Positioning Process

Figure 8.1: The Process of Market Positioning



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Stage 1: Identify Key Product Characteristics

The service marketer should make efforts to find out which of the offer's features and characteristics do consumers desire, and value most, when they make a decision to buy. Some kind of weighting should be put on these features. The features could be both tangible (colour, size, design) and intangible (guarantees, reputation, experience, quality, etc.).

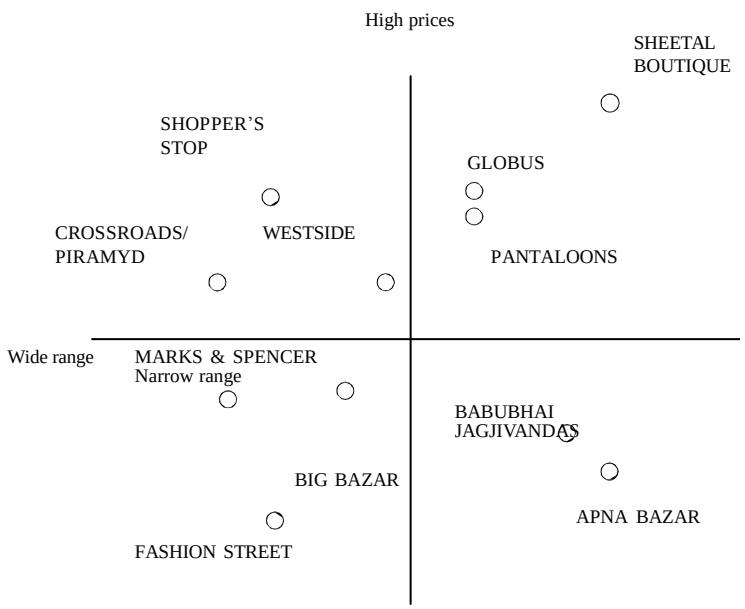
Example: Consumers might have different weights for the features of a tour package company's offer. A vegetarian might be keener on the fare available throughout the tour, while others might stress on the price or variety of destinations and tourist attractions. SOTC/Kuoni, the outbound tour package company has understood the desires of the Indian tourists – food as found at home – so well that they have been able to position themselves uniquely with the "Ghar ka khaana" promise.

Stage 2: Draw a Positioning Map

With the weights of different features, a positioning or perceptual map is drawn. This is an extremely useful tool to visually depict what the consumers think of available brands with their features. A positioning map consists of a grid on two axes, with product attributes on each of them. Thus, brands are spread over the grid, giving an indication of what the market perceives of the brands vis-à-vis others.

Caution: Clusters of brands in one area or brand standing alone in another area will give the service marketer an indication of the intensity of competition as well as the distinctiveness or lack of it of the brands. The marketer also gets glimpses of gaps in the market, for exploitation.

Figure 8.2: A Perceptual Map of Apparel Retailing in Mumbai



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Stage 3: Decide on a Competitive Strategy

After the perceptual map has been drawn, the decision to be taken is either of the two:

- To compete head-on
- Get away from the competition

Different players take different positions in the grid. Some are competing head-on while others prefer to be alone. A new entrant decides on the segment to compete in and if there is a cluster, as with Shopper's Stop, Crossroads/Pyramid, Globus and West Side, then they have to compete head-on. The other choice could be the lower quadrants where there is an absence of competition.

Getting Away from the Competition

This seemingly attractive strategy might land a service marketer in a trap. There may never be any profitable returns or growth from such positioning. Stocking a wide range of goods at low prices might lead to financial failure. If the competition-free slot has high service with low price, then it is destined to be a financial failure with no profits in sight; and if the slot has high price with low service, bad PR and bad word-of-mouth publicity will doom the service and would result in competitive failure. There will not be any revenue coming in at all.

Head-on Competition

Here the market is crowded, but there is an assurance that it is a tried and tested sector. If the intensity of rivalry increases, then margins are bound to get squeezed. If the market is not growing, it might only start a price-war.

Stage 4: Design Product Attributes and Associated Imagery

To help the targeted customer identify the services and their benefits, the marketer designs service product features and associated images are designed. They will include brand name ('Unfixed Deposits' of Citibank, 'Magnum' of SBI), slogan ('state-of-the-heart banking' of Global Trust Bank), advertising themes (delightful and emotional bonding of boy and dog for Hutch), price levels (different prices for Apollo, Hinduja and municipal hospitals), and distribution outlets (Reliance Web World, BPL Gallery, ICICI Centres etc). Thus with marketing mixes, the service marketer is able to position his offer in the minds of the consumer.

Stage 5: Sustain a Competitive Advantage

A service marketer gets a decisive competitive advantage if he is able to set his offer apart from those of the rest of the competition - in the eyes of the target customer. Success will breed imitators, and the service marketer will then have to spend time and resources toward them off. But this competitive advantage has to be sustained, and can only be done by keeping in touch with the customer and knowing his needs.

Notes

Case Study

The Body Shop and Marketing

The Body Shop recorded rapid growth during the 1970s and 1980s. However, its founder, Anita Roddick had publicly dismissed the role of marketing. It is well-known that she publicly ridiculed marketing for putting the interests of shareholders before the needs of society. She also held in similar low esteem the financial community that she referred to as "merchant wankers." While things were going very favourably, nobody seemed to mind her sceptical approach. After all, it was possible that she had actually found a new way of doing business, and the results so far stood to prove it. But how even such a famous and admired person as Anita Roddick could manage indefinitely without consulting the fundamental principles of marketing, wondered marketing experts and others. By the end of the 1990s, The Body Shop was experiencing bad times and the sceptics among the marketing and financial field were quick to point out the folly of its founder's apparently idiosyncratic ways.

From a high in 1992, The Body Shop shares dropped to a low witnessed at the start of 2003, despite the market index rising over that period. Profit remained similarly depressed, with performance in almost all European, North American, and Far Eastern markets stagnant.

Yes, everybody recognised that Anita Roddick has been the dynamo behind The Body Shop's success. From a small single outlet, she inspired and managed the growth of the chain to some 1500 familiar green-fronted establishments in 46 countries around the world. Yet, until the late 1990s, she continued to boast that The Body Shop had never used, or needed, marketing. Much of the company's success has been tied to its promotional approach by campaigning for the pursuit of social and environmental issues. But while Roddick campaigned for everything from physical torture of wives and Siberian tigers to the poverty-stricken mining communities of Southern Appalachia, the company was facing major problems in all its key markets.

Part of the problem of The Body Shop was its failure to fully comprehend the dynamics of its market place. Positioning on the basis of good causes may have been enough to launch the company into the public mind in the 1970s, but what it now needed was a sustainable long-term positioning. Other companies soon launched similar initiatives. For example, the Boots Pure Drug Company matched one of The Body Shop's earliest claims that it did not test its products on animals. Competitors had copied even the very feel of The Body Shop store that included its décor, staff, and product displays. How could the company stay ahead in terms of maintaining its distinctive positioning when many others had similar differentiation? Its causes seemed to become increasingly remote from the real concerns of shoppers. While most shoppers in UK may have been swayed by a company's unique claim to protect animals, it is not clear how many would be moved by its support for Appalachian miners? If there was a Boots or Superdrug store next door, why should a buyer shell out a premium price to buy from The Body Shop? The Body Shop may have pioneered a very clever business launching formula over twenty-five years ago, but the concept had been successfully copied by others. And these other companies had made enormous strides in terms of their social and environmental concerns and awareness.

Part of the company's problem has been blamed on the inability of Roddick to delegate. She is reported to have spent almost half of her time globetrotting in propagating support of her good causes, but did have a problem in delegating marketing strategy and implementation. Numerous capable managers who were brought in to try to implement

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Notes

professional management practices apparently gave up in bewilderment at the lack of discretion that they were given, and then left dismayed.

The Body Shop's experience in America, typified Roddick's pioneering style, which frequently ignored sound marketing analysis. She sought a new way of doing business in America, but in doing so she dismissed the experience of older and more sophisticated retailers – such as Marks & Spenser and Sock Shop, which came unscratched in what is a very difficult market. The Body Shop decided to enter the US markets in 1988 not through a safe option such as a joint venture or a franchising agreement, but instead by setting up its own operation from scratch, according to Roddick's principles of changing the business rulebook and cutting out the greedy American business community. But this was an exceedingly risky move. Her store format was based on the British town centre model. She did not bother to appreciate the fact that Americans spend most of their money in out-of-town malls. In 1996, the US operation lost 3.4 million pounds.

Roddick's critics claim that she has a naïve view of herself, her company, and business in general. She has consistently argued her philosophy that profits and principles don't mix, despite the fact that many of her financially successful competitors have been involved in major social initiatives.

The rift between Roddick's and others' view of the world was revealed in the results of an innovative independent social audit that The Body Shop commissioned in 1966. The company was prompted to commission the study after the report following media criticism that its social and environmental credentials might not actually be as good as the company claimed. The results highlighted eye-opening shortcomings in virtually every one of the company's stakeholder relationships. The company scored well in certain areas such as promoting human and civil rights, pollution control, product information, wages, and benefits, women's opportunities, and energy conservation; but it scored really badly on issues of corporate governance, relationships with shareholders, responsiveness to complaints of customer and franchises, accuracy of promotional claims, communication, and reaction to criticism.

Critics claim that had Roddick not dismissed and ridiculed the need for marketing for so long, The Body Shop could have certainly avoided future problems that it faced. But by 2000, it was paying the price for not having devoted sufficient resources to new product development, to innovation, to refreshing its product ranges, and to moving the business forward. It seems that heroes can change the rulebook when the tide is flowing with them, but adopting the disciplines of marketing allows companies to anticipate and react when the tide begins to turn against them.

N.B: The Body Shop was sold to L'Orcal, the world's largest cosmetics manufacturer, in March 2006, for £ 656 million. Dame Anita Roddick gained personally to the tune of £130 million. Since British and French companies have very divergent views on strategy and day-to-day management, it remains to be seen how successful the union will ultimately turn out to be. For The Body Shop, it's yet another chapter in its struggle to remain relevant in a changing world.

Questions

1. Analyse the significant issues in the case. Was Anita right in ridiculing the marketing?
2. How has Anita Roddick positioned The Body Shop and maintained its identity with social and environmental causes as a unique positioning approach?

Source: Marketing Management-Text and Cases, SHH Kazmi, Excel Books.

Self Assessment

Notes

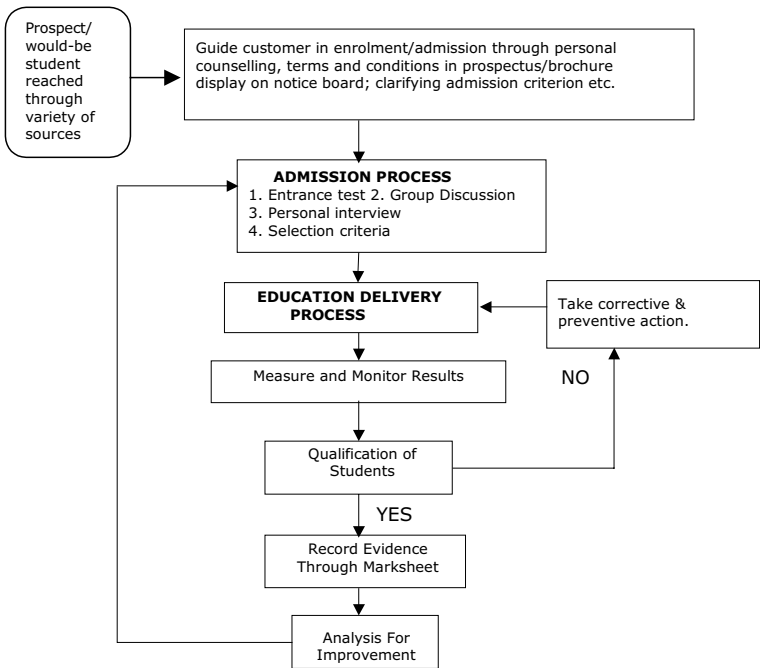
Fill in the blanks:

1. Positioning is a battle for the consumer's ……
2. Positioning should be singular and …… with the values, beliefs and service characteristics.
3. Big Bazaar has positioned itself on the basis of ……
4. If a service brand positions itself as the "best service in the world", it has positioned itself on the basis of ……
5. Virgin Mobile has positioned itself on the basis of ……
6. Goodwill is …… feature attached with the service.
7. A positioning map is also referred to as …… map.
8. A positioning map consists of a grid on two axes, with …… on each of them.
9. If the market is not growing, it might result in a ……
10. If the brand is able to set its offer apart from those of the rest of the competition, it gets a decisive ……

8.2 Service Blueprinting

The service encounter is difficult to describe with accuracy and therefore there is a lot of subjectivity in its analysis. This inconsistency (variability) prevents quality measurement. This has given rise to many methodologies in service encounter analysis and measurements which seek to 'map' the service process. With such a 'map' and 'scripts', it is possible to be systematic in the encounter analysis. This process is called 'blueprinting'. Blueprinting has given rise to other methodologies like 'servuction'.

Figure 8.3: Blueprint for Student Acquisition and Education Delivery Process of a B-school



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8.2.1 Service Blueprint Components

- ***Customer Action***

  Line of Interaction

- ***"Onstage" Contact Employee Actions***

  Line of Visibility

- ***"Backstage" Contact Actions***

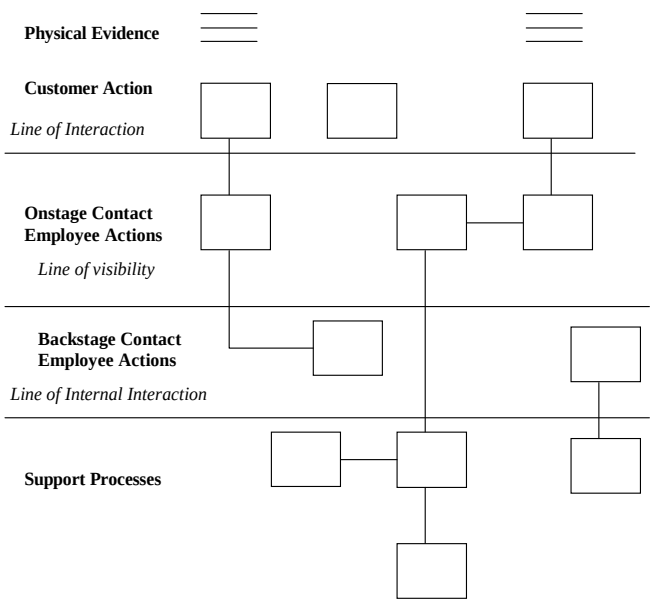
  Line of Internal Actions

- ***Invisible Support Actions***

The service blueprint components consist of customer interaction, on-stage contact employee actions, backstage contact employee actions, invisible support actions and processes. Customer interaction is in the 'line of interaction' in the blueprint.

Example: In a travel agency, customer interaction is on the phone for tickets and reservations, over the counter for foreign exchange transactions or across a desk of the package tour itinerary designer. The line of visibility is for the onstage contact employee actions. Thus a customer for foreign exchange and tour package will be in the line of visibility. In the line of internal interaction is the backstage employee interaction. Here the tour guide or car pool operator will interact with the tour group marketer or itinerary designer. The invisible support will be the systems personnel who will ensure online connections to the other branches, human resource personnel undertaking training and the branch administrator supervising the branch.

Figure 8.4: Service Blueprint Components



Task Prepare a blueprint of the service delivery process of a restaurant.

Notes

8.2.2 Steps in Designing a Blueprint

Following are the steps in designing a blueprint:

1. ***Identify the Process to be Blueprinted***: This implies again that it would be impossible to blueprint the complete processes of the service provider in one format. The individual processes are to be identified for blueprinting. The summation of such processes would give the whole picture to the manager. Each process would by itself be an issue, and particular problem identification and appropriate solution formulation would be easier.
2. ***Map Process from the Customer's Point of View***: Through this method, the customer's comfort zones can be identified. Processes can be modified if it is found that customers are not very comfortable with certain sequences. Consumers possess purchasing scripts that guide their thinking and behaviour during service encounters. The blueprint development process identifies steps where the system can go awry. Process involves specifying the timeframe of service execution.
3. ***Draw Line of Interaction***: The line of visibility and the line of interaction have to be drawn clearly. The areas of interaction affect service experience the most.
4. ***Draw the Line of Visibility***: These are processes in zones that are visible to the customers and in which the customer is most likely to participate. There are also the invisible zones which consist of processes and interactions that are necessary for servicing the customer but are hidden from his view. In a bank, this would include checking the credit-worthiness of clients, processing of documents, dispatch section operations, etc.
5. Map process from customer contact person's view, distinguishing visible activities from those that are invisible.
6. Draw line of internal interaction.
7. Link customer and contact person activities to needed support functions.

8.2.3 Service Redesign and Customer's Role in the Same

There are major possibilities of fail points in the service delivery system. Although service failures do follow Murphy's Law (whatever can go wrong will go wrong) and cannot be avoided in spite of the best of planning, it can certainly be minimized by blueprinting. There are three characteristics to these fail points which the service marketer would do well to observe and analyze for its implications. They are:

1. The potential for operations malfunction is high.
2. Results of the malfunction are very visible to consumers.
3. System malfunction is regarded by consumers as particularly significant.

In order to avoid these, the service firm should take into consideration the customer defined service standards. Based on these standards, service should be redesigned.

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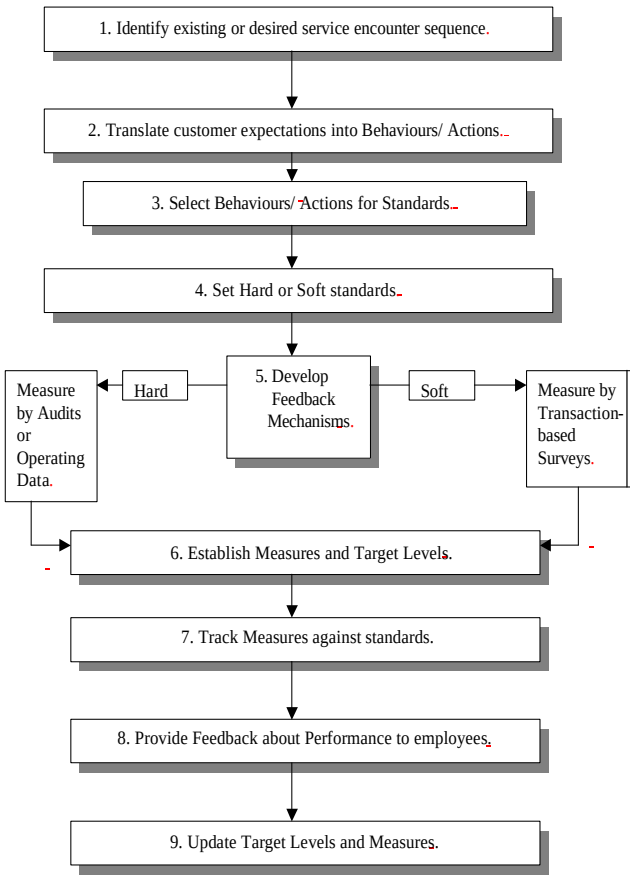
Figure 8.5: Process for Setting Customer-defined Standards



Examples of Hard Service Standards are:

- Number of Complaints Received
- Number of Warranty Claims
- Number or Dollar Value of Sales
- Return on Assets
- Number of Repeat Customers
- Number of Infections per Surgery
- Number of Law Suits Filed
- Competitive Data
- Accuracy of Order
- Back orders
- Parts Availability
- Exceptions to Procedures
- Violations of Regulatory Codes

Notes

Examples of Soft Service Standards are:

- Safety
- Convenience
- Cleanliness
- Availability
- Consistency
- Hospitality
- Credibility
- Waiting Time, Transaction Time
- Accuracy of Transaction
- Friendly Personnel
- Knowledgeable Personnel
- Helpful Personnel
- Costs
- Value Received

Caselet **Blueprint for e-Seva**

In yet another significant stride towards developing an integrated information technology and communication backbone for e-Governance, the Andhra Pradesh Government has drawn up a blueprint and has embarked on a mission to create a State-wide grid that meets the requirements of the Government in the convergence era handling voice, data and video communication.

The State Government had enlisted the services of consultants PricewaterhouseCoopers to assist it to develop an integrated IT architecture as also draw up a security infrastructure for various e-governance applications cutting across departments in the State. Following this initiative, the State had identified several projects for development and these are gradually being integrated.

Since each of the projects has been developed independently, the Government has drawn up a blueprint that is aimed at facilitating an integrated development of the entire IT&C backbone and infrastructure in the State.

The State Government had initiated and conducted a research on various aspects of e-governance over the last few years through implementation of a few pilot projects and through external consultancies. The concepts and models developed in the process have been mapped. Following this, a big picture has been charted out. This picture incorporates core e-governance applications, data centre, group applications; delivery channels while covering various State verticals as also integrated security architecture.

To support the Government initiatives and to provide an enabling environment, the Government recently announced an integrated ICT Policy for the year 2002-2005, the first by a State in the county to initiate such a policy framework, which builds on the earlier IT policy.

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According to the Principal Secretary, IT&C, J. Satayanarayana, this new network and blueprint drawn up by the State is aimed at providing an integrated backbone for all the State Government agencies. The State Government is in the process of implementing various e-governance projects and plans to reach out host of citizen centric services even up to the village level.

Though initially these services will be reached out up to all the 1,100 *mandals* (blocks) across the State, it is proposed to deploy up to village in a phased manner. With such ambitious plans, the Government is looking at this telecom backbone to serve the needs of all the diverse departments in the State.

The proposed broadband connectivity will link up the offices right from the seat of State administration — the State Secretariat down to the district level initially and to the village level gradually. This is expected to complement the existing Andhra Pradesh State Wide Area Network (APSWAN), which is used by the Chief Minister and the State Cabinet colleagues to host video conferencing facility with district collectorates.

This new network and the integrated grid is targeted at translating the State vision of providing swift and wide access of Government services across the State spreading to even the remotest parts. While this new network will provide the infrastructure, the integrated citizen services centres — e-Seva is now programmed to be deployed in other parts of the State.

Several of the e-governance applications, such as the Online Transactions Processing System (OLTP), e-procurement, which is being handled by Commerce One, AP Portal (handled by TCS) and social benefits management system, have been identified as core applications by the State Government. Since these projects involve huge IT spend, the Government is roping in strategic partners under the PPP (public private partnership) model, Satyanarayana maintained.

The ICT Department has estimated that over the next three four years, various State Government's IT&C applications will involve a total outlay of about ₹ 2,000 crore, offering huge business opportunity for domestic software services companies to partner and deploy solutions for various departments, Satyanarayana added.

"The big picture has sharpened the understanding of the State Government of the key components of e-government, their inter-se priority, inter-dependence and linkages. The big picture is not static but is being constantly reviewed and fine-tuned. It is the earnest wish of the State to convert the big picture into a ground reality substantially by the middle of 2003," Satyanarayana, said after the launch of the ICT Policy 2002-2005.

Since these projects involve huge expenditure, the Government plans to take up core projects such as Integrated Financial Information Systems, the transformation of the Secretariat into a paperless office and transmission of information and data from remote parts of the State on a real time basis, as flagship applications. To ensure that these projects are grounded without delays, the domestic companies have been extended certain sops when associated with the State Government in various e-governance projects.

Source: www.hindubusinessline.com

(You will learn more about blueprinting in the next unit under service operations)

Self Assessment

Notes

State whether the following statements are true or false:

11. The inconsistency in service encounters prevents quality measurement.
12. A service blueprint maps the entire brand's marketing process.
13. Actions taken by an airhostess in a flight are a part of line of visibility.
14. The support staffs usually are a part of the line of interaction.
15. The blueprint should be designed from the service provider's point of view.

8.3 Summary

- Service Positioning is done in five steps: identify key offer characteristics, draw a positioning map, decide on competitive strategy, design offer attributes, associated imageries and sustain a competitive advantage.
- Positioning map is an extremely useful tool to visually depict what the consumers think of available brands with their features. It consists of a grid on two axes, with product attributes on each of them.
- The difficulty in assessing the service process has given rise to many methodologies in service encounter analysis and measurements which seek to 'map' the service process. It is known as service blueprinting.
- Service flowcharts allow managers to better understand servuction processes. Designing the process becomes the key to product design. In the design stage, it is ensured that the visible part of operations is supported by invisible processes.
- Customer actions, onstage contact employee options, backstage contact employee options and other support functions form the components of a service blueprint.
- There are four major steps in designing a service blueprint: identify process to be blueprinted, map the process form customer's point of view, draw line of interaction and draw line of visibility.

8.4 Keywords

Blueprinting: maps the process of service delivery

Line of Interaction: customer interactions with people in service

Line of Visibility: line of onstage contact employee actions

Positioning: battle for the consumer's mindshare

Positioning Map: depicts what the consumers think of available brands with their features

Price War: Market situation in which (usually two) powerful competitors try to usurp each other's market share by progressively reducing prices until one of them retreats, at least temporarily.

Notes

8.5 Review Questions

1. Positioning is battle for the consumer's mindshare. Discuss the relevance of positioning in modern marketplace.
2. What are the options available for a firm to position a service? If you want to position healthcare services, how would you do it?
3. Draw a positioning map for the airline industry. If you are coming up with an airline service which would cater to middle-middle income and upper-middle income groups, where would you place it?
4. Success will breed imitators. What can a firm do toward them off? Give examples to support your answer.
5. Prepare a rough blueprint for a banking firm.
6. Explain the current positioning used by Airtel in India and contrast it with the positioning of Vodafone.
7. What do you think, positioning on the basis of which attribute would yield maximum results? Explain your answer
8. Can a service be positioned on two or more attributes? Give reasons to explain your answer.
9. Can a service brand do without a positioning statement or can a firm skip the positioning process? Explain your answer.
10. Briefly explain the service blueprint designing process.

Answers: Self Assessment

1.	Mindshare	2.	Consistent
3.	Price	4.	Service category
5.	User	6.	An intangible
7.	Perceptual	8.	Product attributes
9.	Price war	10.	Competitive advantage
11.	True	12.	False
13.	True	14.	False
15.	False		

8.6 Further Readings

Books

Al Ries and Jack Trout, *Positioning: The Battle for your Mind*, New York: McGraw Hill, 1981

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi

Donald W Cowell, *The Marketing of Services*, London: Heinemann, 1984

J M Rathmell, *Marketing in the Service Sector*, Cambridge Mass: Winthrop, 1974

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Online links

http://servicedesign.wikispaces.com/Service+Blueprint

http://www.visitell.com/pages/article-service-positioning.php

http://www.adcracker.com/position/Positioning.htm

http://www.1000ventures.com/business_guide/crosscuttings/positioning_main.html

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Unit 9: Service Product and Operation

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Objectives

After studying this unit, you will be able to:

- Realise the concept of a service product
- Describe the concepts of service product lifecycle and service branding
- Discuss the new service product development process
- Explain the service process and role of blueprinting in service operation

Notes

Introduction

This unit provides a detailed discussion on the service product and the operations. A product is an offering of commercial intent having tangible and intangible features that goes to satisfy needs, wants and desires of the consumers. A product thus becomes a tool by which an organization achieves its strategic goal. Some examples are a car, soap, a book, a sofa, etc. The consumer gets his various needs satisfied by the product.

Peter Ducker, the management guru, defined a product uniquely. He said,

"*A product is a product if it is purchased and consumed; if it is not purchased and consumed then it remains a raw material or material in process.*"

This definition beautifully captures the responsibility of the marketer. He should not only design beautiful products but also market them. By this definition, a movie or a play is not a complete entertainment product if people don't see them – although they might win a plethora of awards.

Process is an important element of service marketing mix. It is a tactical tool for the service marketer to achieve his strategic goal. All the other 6Ps of the service product mix form parts of service operations.

9.1 The Concept of Service Product

The offer can be both a good as well as a service. The offer can be a good or a service or a combination of both. The service product is an offering of commercial and not-for-profit intent, having intangible and tangible features going on to satisfy various needs, wants and desires of the customers.

Example: The credit cards have got various intangible features (convenience, flexibility, maximum retail acceptance, insurance, contests, etc). The tangible features of a credit card could be colourful mailers, complimentary diaries, calendars and other free gifts, price discounts, etc.

Thus in the marketing of services, unlike that of goods, no exchanges take place as the product is intangible. The service marketer performs a deed for the buyer. What really happens is a transaction between the marketer and consumer who actually consumes the experience – but never gets to own the offer.

Example: A ride on the super-luxurious Volvo bus from Mumbai to Pune is a service.

The customer experiences the journey but never owns the bus. His quality of experience is definitely affected by tangible components of the service offer: cushioned seats, air-conditioning, complementary food, music and video entertainment etc. Thus service transaction remains the main focus for the service marketing strategies and management.

9.1.1 Theodore Levitt's Total Product Concept

Theodore Levitt explained that a product was now no longer an isolated goods offering. It now was a combination of three products:

The core product: This had the very basic features and was the main reason for consumption.

Example: A motorcycle as a core product should have engine, petrol tank, wheels, handlebars and a seat.

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A product with such features was necessarily at the introduction stage of the life cycle. At this stage, neither was the market/consumer mature nor was there much competition. This implied that consumers did not really recognize the depth of their demands nor did they have much choice in goods.

It implies that every service product should provide a basic function – which goes on to solve a customer's problem and satisfies his need. Without the 'core' product, no service offer would exist. It is only the core product that will lure potential customers, offering benefits to them.

Example: With nearing middle age, a person is concerned about financial security post-retirement. His problem can be solved by the following solutions: fixed deposits in reputed banks, fixed deposits with companies, mutual and pension funds, shares of private companies and government securities, bullion, land and other properties, etc. They all promise to offer the same core product – security and growth; and supply the desired benefit of relieving the person's anxiety. Which of these offers should the potential customer go for? The final decision of the potential customer will largely depend upon more than just the core product.

Examples of core service product attributes:

- Functionality
- Key benefits

Example: A tour package by SOTC/Kuoni will have guided tour of destinations as the core service with arranged accommodation, transportation, travel formalities as key benefits.

The formal product (or the actual product): Once the first version of the product was launched and was made available to the market, technology and manufacturing/business know-how started permeating down to many players. This resulted in lots more competition and therefore lots more choices for the consumers.

Example: While the internal combustion engine and motorcar were invented in Germany, mass manufacturing and mega marketing was perfected first in USA and then in Japan, and now South Korean carmakers like Hyundai are world-beaters.

Thus, to stay ahead of the competition, marketers started offering more features like colour, styling, designs, brands, prices, etc., that would attract customers to their products. The intention was that the products would be noticed and bought.

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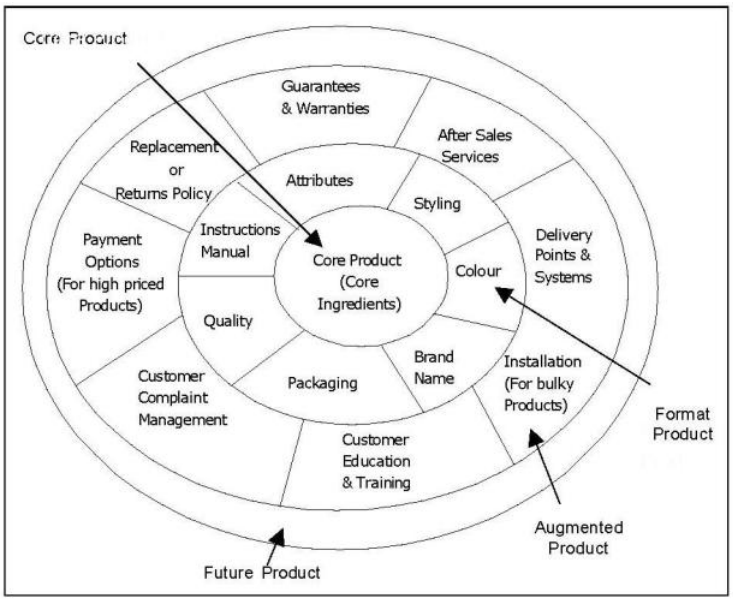
Figure 9.1: Theodore Levitt's Total Product Concept



The augmented product (or the extended product): With further competition, marketers sought more differentiation and added more features/attributes to the original product. At the third level of the product, the features were becoming more and more intangible and they were all services. This time, they added guarantees/warranties, customer education and training, different payment options, installations, home deliveries, etc.

The intangibles were offering mostly psychological benefits to the consumers, with the objective of enhancing the value of the core and the formal/actual product. It definitely helped to underscore the differentiation and get noticed.

Guarantees warranties, and free after sales service assured the customer of continuing reliability; strong brands implied trust; customer education and training went a long way towards reduce the consumers anxiety in handling complex features; easy finance helped the customer to make a spot buying decision courteous behaviour and prompt dealing would increase loyalty. And finally, when all competitive products looked the same, service became the only differentiator.

Example: Between two similar brands of washing machines, a customer would plunk for the one that had a better service component. Thus despite their intangibility, services became the crucial factors for a firm to derive competitive advantage.

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Total Product Concept in the Healthcare Industry

Inputs of Healthcare Industry	Core Product	Expected Service	Augmented Product
Hospitals	Quality Treatment	• Clean Facilities,	• Health Education & Training
		• Qualified Staff and	• In-house Medical Facility,
		Doctors,	
		• Quality Health Care reasonable rates	• Hostel Facility
			• Blood Donation Centre,
		• Efficient tools for Specialized Operations and Surgeries,	• Research & Laboratory,
			• Special Wards for VIPs
			• Visiting Consultant,
		• Range of Rooms,	• Internationally recognized doctors.
		• Third Party Services	
Medical	Software	• Expert Advice,	• Webcam connectivity, **Software**
		• Installation	• Interconnectivity,
		Package/Kit,	• Acceptable widely,
		• Prompt Result,	• Doorstep delivery,
		• Tested and recommended	• Intimation on new updates.
		• Error Free,	
		• User Friendly,	
		Validity Security, Privacy.	
Medical	Covering	• Choice Available,	• Smart Cards,
Insurance	Risk	• Reasonable Rates.	• Different Schemes

9.1.2 Creating a Product Range

The service firm should be in a position to offer a wide range of products. This will enable them to get more customers and satisfy their wide-ranging needs. The wider range would also enable the firm to be more competitive. A new service firm might, to begin with, offer only one product.

Example: Mobile phone operator Orange offered only one basic product during the launch of their service in 1995. But with competition, they have expanded the range of their service offers.

But some service firms use their range of offers (or the lack of it) as a strategy.

Example: Talwalkar's, the famed health-and-fitness franchise chain of Mumbai, have stuck to their offer since the last five decades;

Lakme Beauty Salon is only for beauty treatment while Ayush Therapy Clinic is for ayurvedic treatment.

Notes

Others have progressively widened their product offers:

Example: Travel major Thomas Cook offers the entire gamut of travel services including ticketing, visa and passport services, tour operation management, foreign exchange facilitation, travel insurance, Para- banking services like travellers' cheques and credit cards.

State Bank of India offers the entire gamut of retail banking services like personal banking, credit cards, home loans, personal loans, small business finance, large institutional finance, international banking, agricultural banking, insurance, bancassurance, etc.

The complete bouquet of all offers of a firm is called Product (or Offer) Mix. It is with this set that a service firm can offer the maximum choices to its customers and enhance its strength in the market.

How can a service firm increase its product mix to get the best possible response from the market? It can do so in the following three ways:

1. By creating a service product line (new product development),
2. By increasing the number of service offer items within each product line (length), or
3. By increasing the number of product lines (width).

A **Service Product Line** can be explained as a group of closely related offers, targeted at the same type of customers, having the same end use. A bank having twenty different types of mutual fund schemes would fall under one product line. If it offers bancassurance products, then the latter will fall under a different product line altogether (insurance), having different end use and different types of customers with different needs. Very simplistically, the different brand names that are available under a particular product line (or the length of the service product mix) can be an indication of the strength of the service product line.

Example: SBI Mutual Fund has over twenty-six different basic offers, like Magnum Children's Benefit, Magnum Gilt, MSFU Pharma, etc.

HSBC Mutual Fund has over fifteen schemes like Gilt Fund Long Term, MIP Regular, Income Investment, etc.

The **breadth (or the width)** of the product mix of a service firm refers to its different business propositions or different business lines. As mentioned before, certain service firms specialize in one or a few product lines (i.e., their breadth is less) while others have deliberately spread themselves wider to cover more business areas, trying to satisfy variety of needs of the market. In the case of the latter, sometimes, they may be addressing themselves to an entirely different audience.

Example: ITC, the tobacco giant, is in the hospitality business (Welcome chain of hotels), travel and cargo (International Travel House), golf course management, education (Sangeet Research Academy, Kolkata) and off-the-shelf leisure wear branded as Wills Lifestyle, etc.

ICICI, the country's largest private sector bank, has diversified into insurance (ICICI Prudential and ICICI Lombard), informational technology (ICICI InfoTech), home and personal loans, etc.

The **depth** of the service product mix of the firm gives another perspective to the number of items in a product line. It gives to the customer varieties of choices of the same service product – either by weight, size, volume, colour or other special features.

Pure service offers being intangible, the first four choices may not be feasible. Addition of special features to the same service product might give more choices to the customers. In the

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example of the mutual fund payers quoted above, whether the schemes are growth oriented, dividend paying or both might enlarge the scope of choice being offered to the customers.

In retailing, the same apparel brand can be offered in different sizes and colours; ice cream parlours offer the same ice cream in different flavours, colours etc. Service firms like tour package operators, beauty parlours, restaurants, clubs, offer different grades of services at different prices, with different add-on features.

Example: Kuoni Travel through its brand SOTC is offering rigidly designed tour packages for its customers but also is offering from this summer the highly flexible Christopher Columbus Holidays for the freewheeling traveller.

Self Assessment

Fill in the blanks:

1. In services, the consumer gets to …… the offer but never gets to own it.
2. Meals or food is the …… product of a restaurant.
3. Guarantees are a part of an offer's …… product.
4. The complete bouquet of all offers of a firm is called ……
5. The …… of the service product mix of the firm gives another perspective to the number of items in a product line.

9.2 Product Life Cycle

A service offer goes through stages of slow acceptance, surge in popularity, steady sales and sometimes drop in sales. The drop in sales can be due to many factors including better substitute offers, product obsolescence, changing preferences of the consumers, etc.

Example: In Mumbai, and other metros, in the late nineties, there arose a craze amongst the youth for pool parlours, that started sprouting in every nook and corner of the cities; for entrepreneurs, it seemed to be a jolly good idea: minimal capital and interiors, small space, with the only fixed capital requirement being the pool table, cue sticks, balls, air conditioning (sometimes even that was dispensed with), bare furniture, etc., taking on the form of a fad. But its flameout was just as fast as its rise.

It became imperative for the service marketer to study these varying patterns of sales growth over the lifetime of the offer. A useful model for such study that evolved to satisfy an analyst's need was the concept of the service Product Life Cycle (PLC). With the simple comparison to the stages of human life, PLC implies that services also move through easily identifiable compartments of time and have different characteristics. It greatly helped the service marketer to plan for the appropriate marketing initiatives and responses during specific stages of a service offer's life span.

The PLC has been co-opted as a basic assumption factor in the Boston Consulting Group Grid and in many theories of new product development. Researchers have come to the conclusion that the product life cycle model is very valid in many common market scenarios.

What are the characteristics of a typical offer/service product life cycle? It is the different stages that the product goes through during its cycle of birth, youth, maturity, decline and death/rebirth. The marketer can attempt at a revival and therefore it's called a life cycle.

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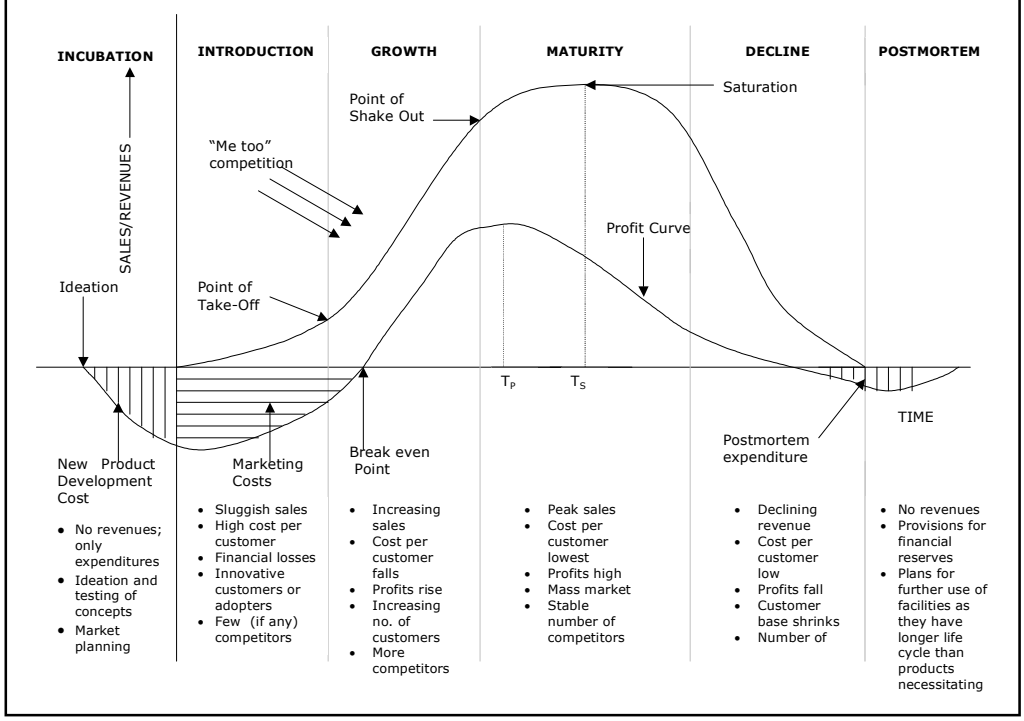
Figure 9.2: Schematised Product Life Cycle



Conception/Incubation

This is the incubation stage of a service product, called New Product Development. It consists of the complete activities from ideation, research and development and product testing.

Introduction

This is the stage soon after the launch of the service offer. The public at large is not fully aware or exposed to the offer. Sales growth or adoption by the market is slow. The potential consumers display uncertainty and resistance to any new products that are not tried and tested. And those that would dare to risk sampling the offers would be the experimental, innovators or adopters.

The service firm would be incurring heavy expenditure, without any surge of revenue, only for building up awareness through different types of promotions. Unlike firms dealing in goods, service marketers do not have to go through the expenditure of cost of production, storage and inventory – not unless they have sizable tangible component in their offer (like restaurants). Neither would they have to bother about such cost drivers as full utilization of production facilities or the lack of economies of scale at the introduction stage. Nevertheless, at this stage, the cost of the offers is high and only adroit cash flow management can take the service firm through to the next stage of the product life cycle.

The normal sequences for any offer to become popular and enduring its trial, or sampling of the offer — followed by repeat purchases. For intangibles like service products, word-of-mouth publicity and recommendations anyway plays a major role in bringing in new customers for sampling. If the service offer is unable to satisfy the customers, there is a dim possibility of any product surviving the first stage.

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Growth

There will be a surge in demand for the service offer when customers make repeat purchases and potential customers come in due to recommendations made by the formers and by the generally positive publicity floating around. Entertainment products like theatres, concerts, operas, plays, movies, and circus etc. are highly vulnerable to such publicity.

Why does the profit curve peak (Time period TP) much before the peaking of the sales curve (Time period TS)?

It is to be noted that the peak of the profit curve does not coincide with the peak of the sales curve. The reasons are due to normal market dynamics. Surging sales, high voltage publicity, increasing awareness and profits are all indications of success. But success breeds imitators; direct competition enters the fray, hoping to harvest from the successful formula. To beat them, the service firm has to fight in two ways: spend more money on brand promotions like advertisements and publicity and by offering price cuts. Although effective in slowing down the onslaught of competition, the added expenditures cut deeply into its profits.

There is a 'bandwagon effect' with the increase in sales, size of the consumer market, and number of competitive players.

CAUTION: Bandwagon Effect refers to the situation where an individual does a thing because other also does it. With increase in market volumes and competition, price tends to drop.

The service marketer has to invest in promotions to establish consumer attitudes, increase market penetration and accessibility through wider distribution reach in order to bandwagon effect.

Maturity

Sales at the maturity stage flatten and slow down. Most possible product benefits are usually developed and the market has reached the dreaded point of saturation. There is now an obvious over-capacity, with more players in the fray. Price cutting becomes the norm for attracting customers. The shakeout had enabled only the strong players to be around. The cost of doing business increases and the market becomes stable. Sales growth can slow down to as low as zero indicating complete saturation of the market.

At this stage, if any new player entered the market, they would only steal business from each other. The Indian hotel industry, especially the five star luxury segment was witness to such a scenario in the sluggish early nineties as well as post 9/11.

Most of the products available today are at this stage of the life cycle; many service offers are spread amongst Maturity (supermarkets), early Growth (deep discounters) and Introduction (e-retailing, e-auctions) stages. At the beginning of this cycle, profits are likely to be at their peak; there is an inevitable decrease as competition hot up and prices fall. Many small brands swiftly head for the next stage, decline.

Decline

In the decline stage, there is a downturn in revenues, customer acquisition and retention. This could be due to a number of factors:

- ***Direct Competitors***: could be doing a better job in offering the same service with more value.

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Example: Private airlines like Jet Airways and Sahara Air have contributed to the declining popularity of the state-owned services like Alliance, Indian Airlines etc.

- ***Emergence of Substitute competition***: The market could witness other offers that could give the customers the same benefits and satisfy their same need.

Example: Video parlours with all their stocks of videocassettes were either forced to close shop or shift to other business areas with the emergence of satellite television broadcasting, twenty-four-hour movie channels, and VCDs/DVDs.

- ***Changing preference of the customers for the service offer or the category:*** The disappearances of the pool parlours as well as the low key demand of pager messaging service are some of the examples.
- ***Technology obsolescence*** could make the service offer redundant with better service being offered from those equipped with the latest technology.

Example: All India Radio (AIR), the state owned broadcaster has lost its audience to the high tech Frequency Modulated (FM) private players.

The decline of the service offer can be permanent or last for years.

Post-mortem

This stage is an after-effect of the changing environmental factors and the paradigm shift in global managerial thinking and is newly emerging to grab the attention of decision makers. It implies that even after the service product and the market have declined and the managers have stopped any further investments, expenditures, or allocating any responsibility and accountability, quality time is spent in monitoring and servicing the customers. This has been necessitated by the societal as well as other environmental consideration.

In case of goods, an automobile firm may have stopped the production of certain models but is bound by government and international regulation to continue making spare parts available to the customers and servicing their cars.

Example: Daewoo exiting from India leaving behind numerous owners of their Matiz cars.

Similarly, servicing of the customers and their service products continue even if the product has been withdrawn or the service firm has exited from the market.

Example: In 1977, IBM and Coca-Cola exited from India. IBM chose to leave behind some of its personnel who would be taking care of their mainframe machines installed in India. The servicing of these machines continued. The majority of the IBM personnel came together under Computer Maintenance Corporation or the now well-known CMC Ltd. ostensibly to take care of the IBM computers in the country.

Task Make a note of the service product range of State bank of India.

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9.2.1 Marketing Responses to PLC

The primary use of life cycle theories is to predict the strategic marketing mix required at each of its stages.

Introduction

The marketer can make use of market penetration strategies by investing in promotions or making widespread entrée through low price, and skimming strategies where short-term gain is the objective with high entrée price. For services, the marketer is more capable of moving in at high speed than the goods marketer, as he does not have to grapple with such problems of production, inventory, storage and logistics.

The service marketer can choose from any of the given four market entry alternatives (Figure 9.3):

Figure 9.3: Market Entry Strategies for New Offers

PRICE	PROMOTION: HIGH	PROMOTION: LOW
HIGH	RAPID SKIMMING	SLOW SKIMMING
LOW	RAPID PENETRATION	SLOW PENETRATION

Rapid Skimming: It is an expensive initiative combining high price and high promotion, directed at a low aware, low willingness-to-buy market. This strategy is very useful if the market size and potential is very high and the likelihood of the competition to quickly adopt and adapt to the offer is also very high. When a service firm has a short-term goal of profit maximization and increase in the sales volume, it can resort to this strategy. The target markets are the Early Adopters and Innovators who do not mind paying the high price for the privilege of being the early users.

Example: The early entrants in the cell phone service operations like BPL Mobile, Max Touch/Orange/Hutch, RPG Cellular, etc., followed this strategy.

Slow Skimming: This strategy is used when the service firm is confident that it can recoup its investments in sufficient time. This could be due to lack of competition (public sector undertakings, infrastructure services like airlines, telecommunication, etc., are some examples), requirement of heavy investments in technology and systems to compete, etc. The target market, mostly business and industrial users pays for the high price as the product is exclusive and vital for their competitiveness. Five star hotels and Enterprise Resource Planning (ERP) and Supply Chain Management (SCM) System providers like SAP, BaAN, i2, Mindtree Consulting, etc., used this strategy.

Rapid Penetration Strategy: If the service firm has a long-term objective of being a market leader, market share and profit maximization, and if there exist entry barriers like intensive competition, then this strategy is useful.

Did u know? ICICI Bank as also Korean firms like Samsung and LG entered India with their dreaded retailing, using rapid penetration strategy.

The price of their offers is lower but there is high visibility in the media. Big Bazaar, the discounter major has successfully used this strategy to make its mark.

Slow Penetration Strategy: When the market size is large, well aware of the service offer and sensitive to price but the competitive threats are almost non-existent, this strategy is used. The long-term objective of the service firm is to maximize sales or profits.

"Speed to market": ICICI Bank made waves by moving in very fast with its retail banking products. So did the grocery chain of cooperatives in superstore format Apna Bazaar. A slow entry would enable the competitors to bring out "me too" products – and quite possibly grab a large market share. With the capability to move in quickly, the service marketer can considerably reduce the lead time between product conception/incubation and product introduction. This is known as the marketer's and/or their product's "speed to market" factor. A necessary system for the service marketer to speedily consolidating his entry includes information integration, cohesiveness and synchronization of all management functions.

Growth

It is obvious that the Growth stage is a battleground for survival. It does begin with a highly optimistic 'Take Off' but ends with a bloodbath of 'Shake Out' with only the fittest surviving. The competition has got a chance to survive the shake out if they don't just copy the original but add innovative features themselves, attracting more customers and helping to enlarge the market base. With the market growing in size, all players could be accommodated and price war, in actuality a poison pill of a solution, avoided.

This is what happened with the cell phone service operators in the latter part of the nineties. But if the market does not grow or there is more number of players than the market can accommodate, then price war is inevitable, discounting becoming the norm and value being given the short shrift. Two service sectors that saw brutal haemorrhaging in India are travel and time- sharing. Travel agents, airlines and even stock brokers and insurance agents not only chose to undercut but resort to such unhealthy (was it also unethical?) practices as giving back customers a part of their commissions. Time-share marketers that have had their obituaries in print are Dalmia Resorts, Sterling Resorts, etc.

After achieving optimum awareness of the service offer, the marketer should go all out in developing customers, increasing service delivery capability to keep up with demand, increasing access and making distribution effective. This will enhance the brand value of the offer, which will become an important asset during the inevitable maturity phase of the life cycle. The advertising as a communication tool should explain the offer, emphasize its features and image and create favourable attitudes.

Example: Shoppers' Stop the early mover in organized, up-market retailing used its advertising effectively to change attitudes and build its image, stressing on the shopping experience, parking and valet features, and the international brands availability.

Any sluggish response by the marketer and the inevitable inability to meet supply and demand might result in lost opportunities and poor customer retention. Increasing the market share should be an important objective of the service firm, bearing in mind the evolving competition. At the end of the growth phase, it can sacrifice short-term profits by using reduced price to lure price-conscious customers.

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Maturity

This stage will witness steady sales with frenetic competition and price war. The service products do not have any new innovations and the effort of the marketer is only to stimulate sales. The marketer, therefore, concentrates on maximizing profits, mostly seeks differentiation, offers wider range of products and concentrates on building relationships and long-term commitments with the customers. Product line modifications and line extensions can be attempted here.

There is also not-so-subtle attempt at poaching customers from the competition by using sales promotions. The marketer should make attempts at consolidating the position and maintaining the market share. The distribution should be the widest and multiple channels can be looked into. Retailing of computer products at this stage includes company owned outlets, discounters, mail order catalogues, direct marketing, internet retailing, etc. The offer is clearly now ready to jump into the augmented product level. With profits beginning to decline, the firm should go in for niche segments, service augmentation, image building and value creation.

Decline

There is really nothing that the marketer can do if the category of the offer itself is on the decline, like for example the services of ear cleaners, bespoke tailors or development and printing of black-and-white films. Whatever brand development and image building the above two service providers might do, it would be almost impossible to reverse the trend of declining preferences by the customers.

The reasons for the decline of a particular category or certain offers have been outlined in the previous section on PLC. The marketer then becomes reluctant to invest any more resources on the products; on the contrary, he squeezes as much revenue or profit possible from the offer. The considerably reduced customer base is exploited for maximum profit extraction with high price targeting tactics. Offers are rationalized, prices are reduced, distribution is phased out and promotional investments are minimized. Michael Porter has suggested for a service firm four strategies to tackle their products in decline:

- ***Leadership***: When there is still potential in the market for profit exploitation, the service firm can invest in product support to strengthen it and emerge as a strong and competitive player.
- ***Niche***: The service marketer can analyze the total market, and identify certain specific segments that has potential for profitability and which can decay slower than the rest.
- ***Harvest***: The marketer is all set to totally exploit the offers. While no further investments are made, there is a serious attempt to streamline costs including reduction of attributes in the augmented product level: customer service, warranties, training etc. The attempt is to "milk" the investments made in the offer.
- ***Divestment***: If the marketer is savvy enough to detect the symptoms of decline early on, the product line can be sold in the latter part of maturity or earlier part of decline stages, at a profit.

Service products that are declining tend not to be withdrawn completely from the market, and as a result the market is awash with them. They thus do tend to distract the attention of marketers in particular and managers in general from those products which are stars and profit centres.

Post-mortem

Post-mortem very rarely affects services, mostly influencing managers in manufacturing and primary activities. Banking, entertainment, insurance, consultancy or retailing does not really

have to engage in such activities as planned disposal of oil rigs (oil exploration and drilling) as Shell was forced to do in United Kingdom, nor careful dismantling of plants and manufacturing facilities, like DuPont was forced to do in many countries, especially in United States.

Did u know? In Germany, a nation that is very highly conscious of preserving the environment, it is mandatory for firms engaged in strip mining to landscape the site. This is something that Indian firms engaged in mining in Madhya Pradesh, Chhatisgarh, Jharkhand and the Vidharbha part of Maharashtra do not do. The entire landscape is dotted with gigantic anthills.

Self Assessment

State whether the following statements are true or false:

6. The four stages of a product lifecycle are introduction, growth, maturity and extension.
7. A service firm has to incur heavy expenditure during the introduction stage of product lifecycle.
8. Brand like State Bank of India, HDFC Bank and Punjab National Bank are in their maturity stage.
9. Rapid skimming strategy is very useful if the market size is huge, but the potential is not very high.

9.3 Branding of a Service Product

With proliferating competitive offerings, customers do have choices but are not able to distinguish one from the other. To differentiate their offerings from the rest and giving them unique identities to make them distinguishable, the marketer resorts to the creation of brands. The American Marketing Association defines a brand as

"A name, term, sign, or design, or a combination of them, intended to identify goods and services of one seller or a group of sellers so as to differentiate them from the competition."

Did u know? The word 'Brand' originated from the word '*brandr*' meaning 'to burn'.

Branding probably started millennia back, when cattle owners wanted to distinguish their herds and livestock from other cattle-owners. They deeply scorched the flanks of their cattle with red-hot irons designed with unique symbols that functioned as permanent marks of identification.

A brand can convey six levels of meaning:

- **Attributes**: Helps the customer associate certain attributes to the offering, like availability of 24-hour service from Citibank (The Citi never sleeps).
- **Benefits**: The attributes and features of the service should be able to convey the existence and promised delivery of benefits that could be functional (State Bank of India has wide ranging offers for all) and/or emotional ("Security is a warm feeling") and ("The nation banks on us").
- **Values**: The brand should communicate about the values and beliefs of the service marketer (HDFC extols trust, faith, and expertise: "With you. Right through"); Delhi Police (With you, for you, Always'.)

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- **Culture**: The service brand can represent certain specific culture (McDonald's is as much about America as Lufthansa is about German culture; dabbawalas about India)
- **Personality**: The service can project a personality (NIIT suggesting an intelligent personality like Vishwanathan Anand, while Airtel talks about a can-do person).
- **User**: The brand also suggests the type of customers who uses its service (American Express cards boast that its card holders are achievers).

9.3.1 Importance of Branding Service Products

Both the marketer and the customer benefit enormously when service products are branded. As mentioned before, the intangibility of the service makes it difficult for customers to comprehend the totality of the offer, believe in their proposition or be too deeply involved in the purchase. For the marketer, the same aspects make their persuasion and marketing long drawn out and more strenuous.

By branding service products, customers are benefited in the following way:

- Reducing time and effort in the decision-making process (DMP) during every purchase of a service offer. Customers are able to shift from high to low involvement in their purchases. The name gives recognition of product and reassurance as to quality of their attributes.
- Consistency of delivery, quality and benefits of the offer are assured, considerably reducing customers' risk perception.
- Enhancing the image and status of the offer, satisfying psychological or emotional needs of the customers.

Brands aid the service marketer in the following ways:

- Charge a premium on their service. Customers tend to place more value on the promise, status, security, guarantee and consistency of the offer. Thus some lawyers, consultants, market researchers and airlines, etc., can charge a higher fee than others.
- Services are intangible and therefore do not have a legal case for patenting their concept, innovations, designs, formats or processes. Therefore, brand name can give services legal protection against imitation. Amazon.com, 'planet earth's largest bookstore' was controversially given a patent in 2002 for its 'one-click' purchase process technology.
- The service marketer can segment markets through branding.

Example: Future Group has Pantaloons, for the upper segment, Big Bazaar discount store for the large mid segment. The Wheels-Rent-A-Car group of the Bhorukas have Transport Corporation of India (TCI) for their trucking logistics, Gati/DTDC for courier and cargo business and Assam Bengal Corporation (ABC), for large containers and cargo and Ritco Travels handling customers with travel needs.

- Retain larger number of customers for repeat consumption. This will generate more profits and enable usages in promotions.
- Ensuring a less risky springboard for new product launches through brand extensions. The brand link communicates in advance to the market about the similar attributes and promise of the new offer. *Example,* HDFC, ICICI, UTI, SBI and IDBI chose to flaunt their names in respect of new financial ventures like retail banking, general and life insurance, mutual funds and securities, etc.

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9.3.2 Brand Name Policies and Decisions

There are three levels of branding policies for service firms:

Corporate/company branding: The service firm's name is promoted and built, followed by the individual product names. But more often than not, the corporate name is stressed for legitimacy.

Example: State Bank is the only brand name that customers know and recall about the financial institution, although they might be considering their 'Teacher Plus' Home Loan Scheme. All products are subservient or insignificant to it.

The Sahara group is the prominent brand, with other products and business line taking a secondary cue: Sahara Air (airline), Sahara Manoranjan (TV channel), Sahara Finance, etc.

Family branding: A very strong brand name either of the firm or one product is built and then multiple brands ride along with it. The benefits are simply, instant recognition and low cost in development. There can be blanket family brands – one brand name for all offers – as well as separate family names for all offers under similar product lines.

Example: The Star TV Group has a bouquet of channels with the family branding of 'Star': Star News, Star Plus, Star Sports, Star Movies, Star World, Star Gold, etc.

Individual Brands: Each product of the firm has a unique and distinctive brand name and there could be multiple products in a product line.

Example: In addition to watch retailing 'The World of Titan', Tatas ventured into the highly successful jewellery retailing Tanishq.

9.3.3 Brand Development for Existing Service Products

There are many ways in which existing service products can be developed:

Brand Extension: An existing brand can be used as the vehicle for introducing new or modified products. It can work even for corporate branding.

Example: HDFC, HDFC Bank, HDFC Standard Life Insurance Company, HDFC Chubb General Insurance Company, HDFC Mutual Funds, HDFC Securities, etc.

Multi-branding: In a fragmented market, a service marketer can introduce multiple brands to sweep as much of market share as possible. If not, then business would have gone to competing brands anyway.

Example: Five star hotels like Oberois and Taj have launched three star hotel chains to cater to the growing middle segment. Internationally, Marriott launched its budget hotels brand Fairfield Inns while Ramada hotels used Roadway for similar purpose.

Retailers have used multi-branding to widen their customer base.

Example: Shoppers' Stop acquired book retailer Crossword while Pantaloons has Food Bazaar and Big Bazaar.

Cannibalization: This retrograde development takes place when due to multi-branding; one brand eats into the current and potential market of another of the same service firm.

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Example: Citibank had its own credit and debit cards. After it acquired Diners Club, there was perceptive cannibalization.

Up-market Pantaloons would have had the effects of cannibalization after introducing discount store chain Big Bazaar, especially if they were in the same mall premises as Phoenix High Street, Lower Parel, Mumbai.

Co-branding: Different brands can be bundled together as a form of additional benefits and promotions. Car dealers are co-branding their sales with consumer finance companies; similarly housing finance companies are riding the waves with many housing developers.

Example: Credit card companies are being co-branded with global franchisers Visa or Master card; they are also being tied to airlines' frequent flyer programmes.

Co-branding helps service marketers enter segments not previously targeted by either of them.

Private and generic brands: Retailers and franchisees are bringing out their own brands, called 'private label' brands. These brands are giving distinctiveness to the retailers and the franchisees and preventing customers from comparing the brands.

Example: Some retailers, like Tata Retail Enterprise's (Trent's) Westside, have made a virtue of having only store brands. Internationally, Gap was a retailer in the sixties and the seventies of only Levi's denim wares. In the eighties it went into the development of its store brands and now has only its own brand, Gap. Generic brands or simply no brands in services existed in service repair of home appliances, assembly of computers and air conditioners, single tutor coaching classes or single personnel counselling, etc.

Task Give examples of family branding and Co-Branding. Collect ads of the service brands that have been successfully used corporate branding.

9.3.4 Service Brand Building

The following steps should help a marketer build service brands:

- The basic values of the service company should be clearly enunciated and then the corporate brand can be developed. Thus the strong corporate brand name of SBI, ICICI bank or HDFC ensures that the respective service products have images of quality and values – only because the respective firms first clearly enunciated their basic values.
- While brand managers are responsible for the development of corporate and service brand, in services everyone including the providers and the top company personnel should live through and believe in the brand's promise and proposition. Cynicism on the brand will kill any development chance. This happened with all public sector undertaking brands, especially airlines, banks and insurance. The managers and the providers were themselves disparaging their own company offers and proposition.
- The company should clearly define the essence of the brand that is to be delivered during service transaction. There should be the identified core services as well as the uniquely differentiating supplementary services that are facilitating in nature. Thus, for a travel agent, core services would constitute booking the ticket and getting the travel documents

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like passports and visa made, supplementary or facilitating services would be telephonic intimation, home delivery, travel information as well as destination information, etc.

- At every moments of truth (MOT) occasion, like events, service interaction, seminar, news, press conference, e-mail, person-to-person contact, etc., the service firm should ensure positive customer experience.
- The brand value proposition should always be the main plank for the firm's strategy, operations, service delivery and product development.
- The firm should correctly measure the effectiveness of the brand building exercises. The old method was to measure awareness, recognition and recall. But other methods like measuring value perception of the customer, customer satisfaction, customer share of the wallet, customer retention and customer advocacy or referrals are more effective measurements of service brands.

Case Study **Re-Branding British Airways**

British Airways, the airline with the imperial demeanour, was as much hated as admired; hated by rivals and admired by customers *as well as rivals.* It was the last of the institutions (after banks like Barclays, Standard Chartered, etc., and insurance companies like Lloyd's took a drubbing at the hands of, first the Americans and then the Japanese) that harked back to the Empire. It was Buckingham Palace, Beefeaters, Big Ben and London Bridge all rolled into one. Its logo took on the colours of the Kingdom's national colours of blue, white and red and had a straight arrow beneath the name, as if underling the stiff upper lip disdainful superiority, rigidity and punctiliousness that the English were once notorious for.

It was punctual (like Lufthansa), innovative (like Delta) in bringing upmarket products like *Club Class,* and widespread (like the late lamented Pan Am and TWA) especially after the takeover of the Australian airline, Qantas. It was known for its service, good food and wine. It drove hard bargains with other countries and airlines for wider sky penetration by using their clout with the British government and the threat of access to London's Heathrow Airport, one of the busiest hubs in the world. They could therefore afford to have a higher tariff for their products *and yet have full flights.*

But it wasn't always this rosy for BA. Earlier, in the seventies, it had amalgamated smaller regional airlines of the UK into its fold: British Overseas Airways Corporation (BOAC), which flew passengers outside England, something like our Air India; British European Airways (BEA) and British Caledonian Airways. 'BA' was identified as the test case for disinvestments by the newly elected Conservative government headed by Margaret Thatcher in 1979. A brand audit revealed that for irate passengers, BA stood for *'Bloody awful'!* Its service was perceived to be poor, its personnel insensitive and haughty. First Lord King and then Colin Marshall initiated slow but inevitable changes in BA.

Under these two, during the eighties and the nineties, *British Airways* literally lorded it over the skies. To drive home their advantage, they had phenomenal promotions and advertisements. *Saatchi & Saatchi,* the wonder ad agency designed one catchy and award winning ad campaign after another, getting the airline noticed, talked about and preferred by travellers. *Saatchi & Saatchi* could do no wrong, it seemed. They had been instrumental in correctly communicating, during the elections in the UK, Margaret 'Iron Lady' Thatcher's

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conservative messages not once but three times ("Long Labour" was one of the many memorable copies). The slogan *'The world's favourite airline'* became identified with British Airways. Their mission was *'To be the number one in air travel'*. Well into the nineties, again in one of its numerous brand audits, BA found that

- Six out of ten of its passengers were non-British;
- The previously perceived images of impeccable service, punctuality and comfort were still intact;
- But it was also perceived as being rigid, inaccessible and cold.

British Airways did a massive rebranding exercise to communicate its vision of being a leader in global travel, its awareness of the profile of its new constituents and seeking to include the over 60% international customers in its service philosophy, and attempted to shift the emphasis in BA from **British** *to* **airways.**

Logo: It first changed its logo seeking to dispel the negative images. Designed by *Landor Associates*, the new logo was an image of a red-and-blue scarf blowing in the wind, above the name. Called *'Swish'* (shades of Nike's logo 'Swoosh'?) it stood for 'Speed, Flexibility and Friendliness'.

Advertising: Its advertising campaign had 3000 models, and was shot in the breathtaking locales of Utah, USA. It showed the models forming gigantic ears, eyes, and nose and then in one synchronized movement forming a huge smiling face, which turns out to be the globe. The Greek musician Yanni composed the signature tune and song. *Saatchi & Saatchi* garnered six *Clio* awards, the Oscars of advertising. The message was: BA catered to a global audience, its service was world class and available globally.

Symbolism: A new and a bold attempt were made to connect the local images to a global airline. BA painted the tailfins of its aircraft with local motifs. Calligraphic paintings for flights to China, *paithani* sari designs for flights bound to India, and so on.

Colours: BA stuck to the royal colours of red, white and blue for the logo, name font as well as the uniforms for its stewards and stewardesses.

Questions

1. Why should a marketer attempt to brand a service?
2. Can a branding exercise in relation to services be done exclusively through advertising? Explain.
3. What are the components of a brand?
4. How would you go about successfully branding a new airline?

Self Assessment

Multiple Choice Questions:

10. Which of these is not a sister store/brand of Shopper's Stop?
    a. Musicworld
    b. HomeStop
    c. Crossword
    d. Hypercity

Notes

11. Zee TV follows:
    a. Individual branding
    b. Family branding
    c. Company branding
    d. Dual branding
12. Which of these is an individual brand of YUM Brands?
    a. Dominos
    b. Burger King
    c. Taco Bell
    d. Wendy's
13. _____ helps service marketers enter segments not previously targeted by either of them.
    a. Multi-branding
    b. Cannibalization
    c. Generic branding
    d. Co-branding

9.4 New Service Development

In light of the discussion on service product, if a new service offer is to be developed, then the following five steps should be systematically followed in a sequence, as shown in table 9.1.

Table 9.1: Developing New Service Offer

Stage		
I	CONSUMER BENEFIT CONCEPT	What benefits consumers seek ***Problems:*** • Inarticulate consumer • Benefits south change over time • Measurements on importance of benefits
II	SERVICE CONCEPT	What benefits the service organization should offer
III	SERVICE OFFER	Service elements: Tangible and intangible Service forms: in what way and how Service levels: quality- image and quantity-volume
IV	SERVICE DELIVERY SYSTEM	Using benchmarks of service offer Develop processes, people and facilities
V	MANAGING IMAGE AND COMMUNICATION	To support and enhance perceptions on service offer

The first step in developing a new service offering is to assess the customer benefits. It is said that people don't buy products because of their attributes, rather they buy their benefits. Therefore, it is important to identify what benefits the prospective customer would seek from your service offer. Proper market research and available appropriate information should provide the necessary

Notes

knowledge of what qualities customers expect so that the corresponding features are taken care of in the service package.

Thereafter, the service organisation should develop the service concept. Consumer benefits have to be translated into core, facilitating and support services with a view to defining what general benefits the service organisation would offer to its customers.

The third stage is that of developing the augmented service offer. Obviously the service production and service delivery system are to be developed so that the service package is not only made accessible but the customer is also involved in the delivery process itself.

Careful planning at this stage is essential because if the right service in the right form and in the right quality and quantity is not delivered, the entire customer oriented plan would collapse. Therefore, the delivery of the service offer is an inseparable part of development of any service offer.

Lastly, the appropriate market communication strategy should be prepared and its implementation plan should be defined not only to inform and persuade the customers but also to enhance the desired image.

Self Assessment

State whether the following statements are true or false:

14. The first step in developing a service offering is to assess the customer benefits.
15. The customer benefits need to be transformed into augmented service first.
16. Delivery of service offer is an inseparable part of the service offer.

9.5 Service Operations

Though service operation includes the entire service process, the major concern is the service delivery. Customers tend to perceive the service delivery system as part of the service itself. The pedagogy (teaching methodology, which can include plain lectures, group works, assignments, case analysis, projects, business models, role plays, experiential exercises, book reviews, cinema analysis, etc.) of a professor of marketing in a business school is perceived by the customers (students) to be a part of the service itself. This makes operational management decisions crucial to the success of marketing of services. This implies continuous coordination of marketing and operations personnel.

All the work of a bank can be described in the form of a process. They involve activities, procedures, schedules, tasks and mechanisms of service delivery. It includes policy decisions of the scope and scale of customer involvement and employee discretion. For a service marketer, concentrating on the process part to measure quality for a service marketer is important due to the intangibility factor.

A service organization's decision-making process is also part of the service delivery process and is actually the precursor to all processes. Given below are the service delivery processes of a management college and its student acquisition process.

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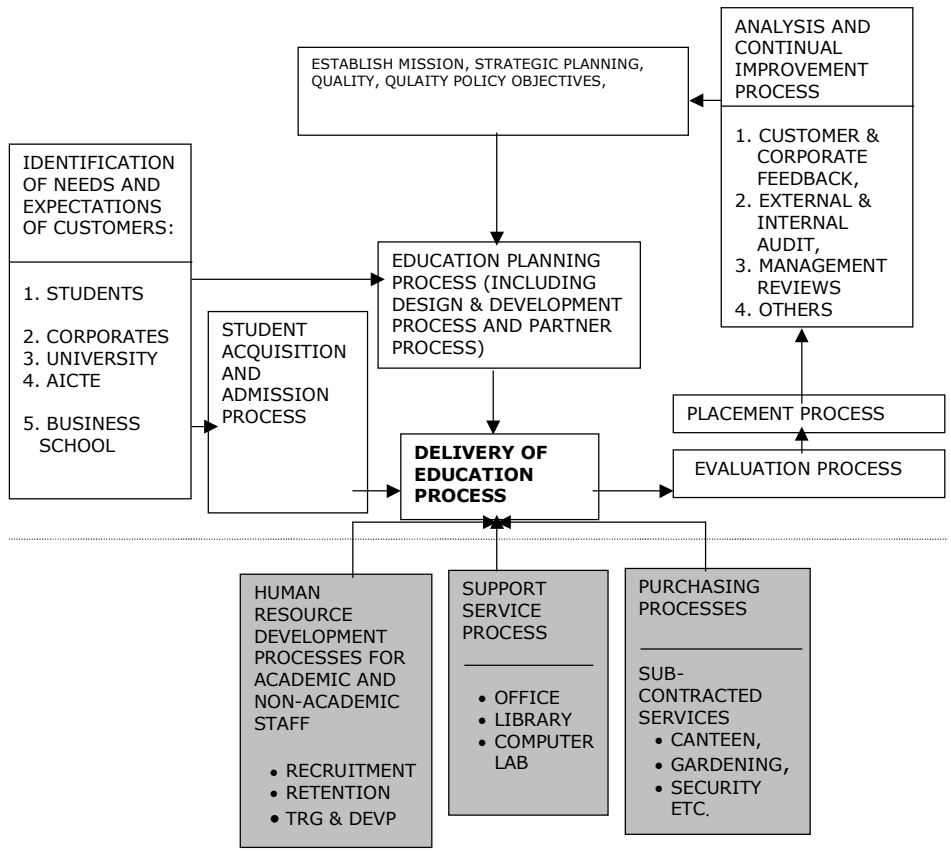
Figure 9.4: Education Delivery: Key Processes Map for a B-school



Caselet **Pizza Hut: Striving to Achieve Excellence**

Pizza Hut has a broad range of customers. This is because pizza is extremely popular with a wide variety of people.

In order to satisfy the needs of the customers, their marketing team is deeply involved in New Product Development. There are several steps to go through before they launch a new product. The first step is to carry out research to find out:

- What people think about pizzas (what role do they play in people's lives, when do they eat them and so on)
- What do they like about pizzas
- What do they dislike about pizzas
- What do they want from pizzas

This information is collected together and used to create ideas for prototypes. The ideas are tested first, before they make any pizzas.

Once they have perfected the pizza, they LAUNCH!

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The Pizza Hut restaurant operation is the face of the company. The role of operations is to be obsessed with the quality of our pizza and the experience that our customers receive.

There are three distinct categories of restaurants.

- ***Full Service Restaurants:*** These are the traditional pizza restaurants offering a seated service and take-away.
- ***Home Service Restaurants:*** These restaurants offer home deliveries and take-away.
- ***Restaurant Based Delivery:*** These restaurants are full service restaurants combined with a delivery and takeaway service.

All their Pizza Hut sites work to the CHAMPS standard:

- **C**leanliness
- **H**ospitality
- **A**ccuracy
- **M**aintenance
- **P**roduct
- **S**peed

These six items define the very core of customer expectations. 'CHAMPS' has become the vehicle which drives Operations Excellence into our business and is also supported by a reward and recognition scheme for the Team members. The 'CHAMPS check' is a tool used to ensure consistency of service and product quality across the entire Pizza Hut estate.

Source: www.123helpme.com

9.5.1 Role of Blueprints

Blueprint maps the entire service delivery process. To facilitate maximum satisfaction to the customers, more inputs were added to the service delivery. Service evolved from very simple steps to complex processes, and there arose a need for the marketer to get a 'bird's eye view' of the whole process. Blueprinting is flowcharting of a service operation. This methodology was devised by Lyn Shostack in 1984, to help out new service firms in mapping the sequences before the beginning of service delivery or any encounter. This would help the service manager in identifying areas of potential failures, and weak service delivery points — and identify solutions to overcome them.

This would prevent the manager from learning by costly trial and error. It (blueprinting) also enables marketing managers to understand the parts of the operating system that are visible to the consumer and hence parts of the servuction system.

In the servuction system, it is very difficult to identify components of an individual firm. Worse, firms underestimate the sensitivity of points of contact.

Example: Many banks, schools, travel agencies fail to understand the importance of the first enquiry telephone call. If the telephone rings for too long, without any response, the potential customer has already formed an opinion of an uncaring organization.

If the first encounter itself is not pleasant, the customer is not going to come back. Service firms are now starting to realize the importance of the first call and its potential for generating revenues. They are setting up '24 × 7 × 365' call centres to be manned by efficient and alert call handlers. The providers are adequately enabled by training, and computer facilities for all

enquiry data access and customer and product details. The service providers are trained to pick up the phone on the first ring.

Service flowcharts allow managers to better understand servuction processes. Designing the process becomes the key to product design. In the design stage, it is ensured that the visible part of operations is supported by invisible processes. Flowcharts seek to identify the following:

- The time it takes to move from one process to another;
- The costs involved with each process step;
- The amount of inventory build-up at each process step;
- The bottlenecks in the system.

A customer blueprint has three core elements:

- Identification of all those functions that is essential to deliver a service along with the appropriate personnel with requisite responsibility, authority and accountability.
- The relationships amongst different functions of service components are explained by graphics and charts. The relationship is based on time and sequence with each other. For a hotel, the sequence of housekeeping in relation to reception and registration has to be elaborated with a specific time interval.
- Setting up of standards for each function with tolerance levels and variance from standards. These tolerances for variance should not adversely affect the service quality adversely.

9.5.2 Benefits of Blueprinting

The objective of blueprinting is to show how information, assets and customers are processed. To put all of them in a blueprint is to imply that they are elements of uncertainty.

The following are the benefits of blueprinting a service process:

- Through blueprinting, marketing and operations personnel are able to communicate with each other on paper before they do so in real time.
- It provides a check on logical flow of the whole process.
- Bottlenecks represent points in a system where the consumer waits the longest. This identification would help the service manager understand the reasons for the delay and come out with solutions.
- *Balanced Production Line*: This implies that process times and inventories of all steps are the same. If not, the consumer never waits for the next process. This implies for the service manager that there will be incomplete service experience.
- It is an effective tool for managers to recognize the benefits of a changing system to process consumers more effectively.
- It helps the marketer to set target times initially based on consumers' expected level of service.

9.5.3 Operations Blueprint

There are alternative ways to develop service blueprints. Instead of going by the service manager's own experience and knowledge of service delivery, an alternative way to develop a blueprint would be to start from consumer scripts. This is a process where consumers are allowed to describe the process they follow while using the service. Their usage becomes the guideline for blueprinting.

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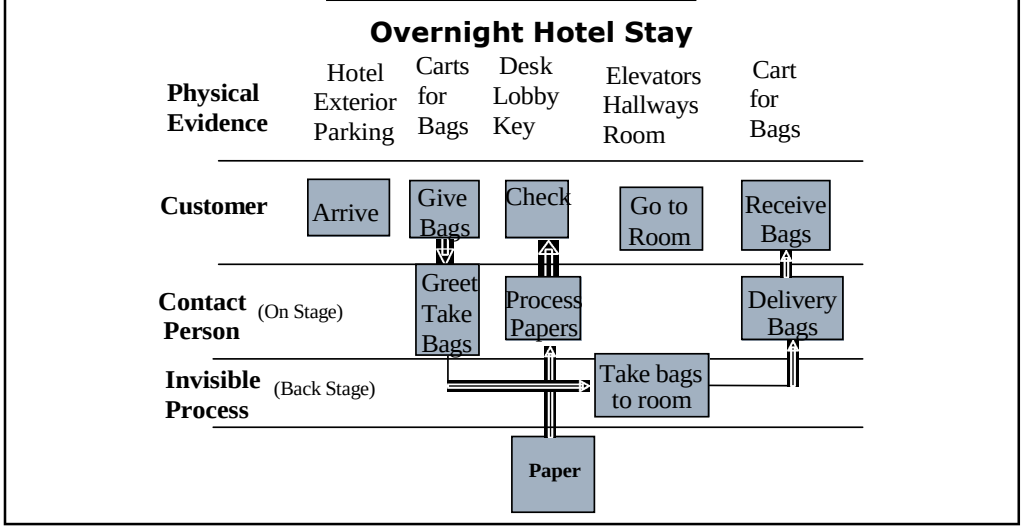
There are two types of Blueprint:

1. **One-sided Blueprint:** These are unbalanced blueprints based on management's perception of how a sequence of events should occur. This is the beginning of marketing myopia. Sincerity of efforts on the part of the management is no substitute to effectiveness. An example of an employee blueprint is given in figure 9.5, overnight stay in the hotel. Employee scripts are equally important in identifying parts not observable to consumer.

Figure 9.5: Overnight Hotel Stay



2. **Two-sided Blueprint:** This considers both employee and customer perceptions of how events occur. Consumers are asked to pay special attention to contact activities of service encounters.

The blueprinting process is undertaken with scripts. There are some norms for the scripts which are attempts to group events and order them in the sequence of occurrence. Thus there are two types of scripts:

1. **Convergent Scripts**: Employee/consumer scripts that are mutually agreeable and enhance consumer satisfaction.

2. **Divergent Scripts**: Scripts that mismatch and point to areas in which expectations are not met.

Process can be changed from the simple to complex and vice versa or in terms of divergence. A new positioning can be made or the old one can be reinforced in the following four ways:

- **Reduced Divergence**: Cost reduction, product improvement and simpler distribution are some of the ways this can be done. There is an opportunity to produce more uniform quality while there can be the perception of limited choices (similar to a mass marketer). Indian Railways tend to follow this strategy as also most air-freight companies.

- **Increased Divergence**: Greater customization, more flexibility and therefore higher price. Focus marketing or niche positioning can be attempted.

Example: Tour package operators like Kuoni/SOTC have attempted this strategy successfully. They have had tour groups for school children with their class teachers as a mandatory part of the group.

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- **Reduced Complexity**: This is specialization where there are minimal steps and processes. Charter flight operators like UVI Holidays resort to this positioning. Whitewater rafters like Wanderlust are also following this strategy.
- **Increased Complexity**: This strategy is used for market penetration by adding more services. Supermarkets, retail banks, etc., tend to opt for this strategy.

Self Assessment

Fill in the Blanks

17. …… maps the entire service delivery process.
18. …… implies that process times and inventories of all steps in the service delivery process are the same.
19. …… blueprints are unbalanced blueprints based on management's perception of how a sequence of events should occur.
20. Scripts that mismatch and point to areas in which expectations are not met are referred to as …… scripts.

9.6 Summary

- The offer can be both a good as well as a service. The offer can be a good or a service or a combination of both.
- Theodore Levitt explained that a product was now no longer an isolated goods offering. It now was a combination of three products: core product, the formal product and the augmented product.
- The service firm should be in a position to offer a wide range of products. This will enable them to get more customers and satisfy their wide-ranging needs. The wider range would also enable the firm to be more competitive.
- A Service Product Line can be explained as a group of closely related offers, targeted at the same type of customers, having the same end use.
- In the introduction stage, the service firm would be incurring heavy expenditure, without any surge of revenue, only for building up awareness through different types of promotions. In growth stage, there will be a surge in demand for the service offer when customers make repeat purchases and potential customers come in due to recommendations made by the formers.
- Sales at the maturity stage flatten and slow down. Most possible product benefits are usually developed and the market has reached the dreaded point of saturation. In the decline stage, there is a downturn in revenues, customer acquisition and retention.
- In maturity, the marketer concentrates on maximizing profits, mostly seeks differentiation, offers wider range of products and concentrates on building relationships and long-term commitments with the customers.
- To differentiate the offerings from the rest and giving them unique identities to make them distinguishable, the marketer resorts to the creation of brands.
- Branding a service, helps marketers in charging a premium from the consumers and effectively segmenting the market through different brands.

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- The new product development process includes these steps: idea generation, idea screening, business analysis, product development and testing, test marketing and commercialization.
- Though service operation includes the entire service process, the major concern is the service delivery. Customers tend to perceive the service delivery system as part of the service itself.
- A service organization's decision-making process is also part of the service delivery process and is actually the precursor to all processes.
- Blueprint maps the entire service delivery process. To facilitate maximum satisfaction to the customers, more inputs were added to the service delivery. Service evolved from very simple steps to complex processes, and there arose a need for the marketer to get a 'bird's eye view' of the whole process.
- There are alternative ways to develop service blueprints. Instead of going by the service manager's own experience and knowledge of service delivery, an alternative way to develop a blueprint would be to start from consumer scripts.

9.7 Keywords

Augmented Product: intangible features associated with the product

Cannibalization: a brand eats into the market of another of the same service firm

One-sided Blueprint: maps the process from management's point of view

Rapid Penetration: combining low price and high promotion of new services

Rapid Skimming: combining high price and high promotion

Service Mix Depth: no. of items in a product line

***Service Mix Width*:** different business propositions or different business lines

***Service Product Line*:** closely related offers, targeted at the same type of customers

Slow penetration: combining low price with low promotion of new services

***Slow Skimming*:** combining high price with low promotion of new services

***Two-sided Blueprint*:** considers both employee and customer views of how events occur

9.8 Review Questions

1. "Offer can be a good or a service or a combination of both". Explain the statement with examples.
2. Discuss Theodore Levitt's Product theory in relation to the hospitality industry.
3. Consider any one service firm in the banking industry and discuss its entire product range.
4. "It is important for the service marketer to study the varying patterns of sales growth over the lifetime of the offer". Why? Explain in context with any service industry of your choice.
5. Suppose you are the marketing manager of a financial services firm. What strategies would you adopt at various stages of PLC of the insurance services provided by your firm?

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6. Does the intangibility of services, makes it more important to brand a service offering? Explain
7. Critically analyse the concept of cannibalization. How can you co-brand and extend the existing service brand -ABC tour packages?
8. Suppose you want to open an Italian restaurant. How would you go about initiating your business venture?
9. "Customers tend to perceive the service delivery system as part of the service itself". Why does this happen? Are they same? Explain with examples
10. Explain the importance of 'first encounter' in: hotel industry, a banking firm, airline, hospitals and counselling services. In which of these sectors, experience of 'first encounter' is most important?
11. Explain the product life cycle concept. Which stage is the brand 'Air India' in?
12. Explain the new service development process of a tariff plan at a mobile network provider.

Answers: Self Assessment

1.	Experience	2.	Core
3.	Extended	4.	Product mix
5.	Depth	6.	False
7.	True	8.	True
9.	False	10.	a
11.	b	12.	c
13.	d	14.	True
15.	False	16.	True
17.	Blueprint	18.	Balanced Product Line
19.	One-sided	20.	Divergent

9.9 Further Readings

Books

C Bhattacharjee, *Services Marketing,* Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US

Valarie A Zeithmal and Mary JO Bitner, *Services Marketing: Integrating Customer Focus across the Firm*, Tata McGraw Hill, New Delhi

Online links

www.quickmba.com/marketing/product/lifecycle

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www.servicedesign.wikispaces.com/Service+Blueprint

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Unit 10: Role of Employees and Customers in Service Delivery

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Objectives

After studying this unit, you will be able to:

- Realise the importance of service providers
- Describe the boundary spanning roles of service organisation employees
- Identify the different roles that internal customers play in a service firm
- Explain the role of customers in service delivery
- Know how difficult customers are dealt with

Introduction

The intangibility and inseparability factors of services make the people involved in services (part of extended marketing mix) the most critical and important. More and more service firms are discovering that this is the enabler for decisive competitive advantages and differentiation. Both, internal customers or the employees and the external customers play a vital role in service delivery.

People define a service. If you have an IT company, your software engineers represent you. If you have a restaurant, your chef and service staff represents you. If you are into banking, employees in your branch and their behaviour towards customers represent you. In case of service marketing, people can make or break an organisation. Thus, many companies nowadays

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are involved into specially getting their staff trained in interpersonal skills and customer service with a focus towards customer satisfaction. In fact many companies have to undergo accreditation to show that their staffs are better than the rest.

The customers are a part of service delivery, so their role is also as important. In this unit, you are going to learn about the role of employees and customer in service delivery.

10.1 Role of Employees/Internal Customers

For services, due partly to its characteristics of intangibility, inseparability and variability, people – mostly its internal customers – have become one of the most important strategic variables. They, therefore, are the main differentiators for the service firm.

Example: There are over 900 business schools in India. Some of the more important ways in which they can effectively differentiate themselves is through its faculty and staff quality (internal customers), pedagogy (process), infrastructure and facilities (process and physical evidences), etc.

There could be two service organisations in the same business proposition, having the advantage of same equipments, technology and complementary goods. Nevertheless, they could be perceived to be radically different in their approach to customer service and consistency in service delivery.

Example: A good example is the airline service. There are not too many aircraft manufacturers. In all probability, most competitive airlines of the world must be using either Boeing or Airbus aircraft... or both. But Singapore Airlines is perceived to be a class apart in customer service, which is mostly credited to their efficient crew and graceful 'Singapore Girls'. Lufthansa, the efficient German airline, is known for its safety and punctuality records. Passengers have reported to be pleasantly surprised at the breadth of decisions that the employees of the Swedish airline SAS seemed to have been empowered to take. This was in sharp contrast to the bureaucratese displayed by most other airline staffs. SAS employees seemed to take many decisions regarding passenger comforts, upgrading passengers, baggage and other travel problems themselves without referring them to their superiors.

In India, Jet Airways, compared to the state owned airlines and other private players came in late yet is better rated in service than most other domestic players. The reason for the above airlines to be successful is the same: high quality internal customers.

Some of the ways in which the internal customers can contribute to unique and positive differentiation of the service firm are:

- ***Communicability:*** The term "internal customers" includes employees of the service firm, channel partners like Direct Sales Agents (DSAs), retailers, franchisees, etc., and Business Process Outsourcers (BPOs).

  A better skilled and trained internal customer would be able to communicate better with the external customer. This includes an incisive analysis of the customer's needs, his levels of comprehension (feed forward), assimilation and choice of encoding symbols, message formulation and delivery. This helps the internal customer to be persuasive in his communication - making the customer understand and believe in the concept of the service. The latter is a major inherent drawback that is derived from intangibility. The quality of the provider's interaction with the customer is also very high, leaving a lasting impression of good customer service and satisfaction.

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- ***Transaction:*** A highly trained and skilled provider will be able to deliver high quality service. The quality of transaction will have minimal service failures; and if there are such unfortunate incidents, then there will be scope for swift service recoveries.

  The customer now has his service experience to help him in differentiating the particular service firm from others - in the offer design and service delivery. The quality of service transaction is also dependent on the moods, involvement, orientation and experience of the internal customers. The customer encounters 'Moments of Truth' and carries home the experience as the evidence of quality of the service firm.

- ***Consistency:*** Only a highly trained cadre of internal customers would be able to consistently deliver the service at all levels and at all times. The consistency is not only in the individual provider's performance; say Monday through Saturday, but also amongst all other providers of the service firm.

  Everyone seems to possess the same high skills in uniformity that makes it hard for the customer to detect any change in the service delivery. This goes a long way in putting the customer in comfort zones, preventing him from having any feeling of fear, anxiety or dissonance.

10.1.1 Boundary Spanning Roles

The service providers are unique (when compared with those in the goods industry) in the sense that they are continuously interacting with their internal as well as external environment. They receive information from the external non-members of the service organisation and transfer them inside for it to react and respond positively. They also interact with the outside world as representatives of the service firm, almost as its spokespersons. They are the service firm. In this way, service providers adopt roles that span a wide boundary, helping link their service firm with the environment.

Is there only one type of provider who has boundary-spanning roles? No, because in the service industry, internal customers range from being professionals to non-professionals. The implication is that in a service firm, non-professionals have the roles of information transmitters as well as that of representing the service organisation. Similarly, even the professional internal customers also don the same two mantles: that of information transmitter and a representative of the firm. The difference lies in the reaction of the customers to the two: they acknowledge the expertise of the former because of their educational qualifications (surgeons, lawyers, accountants, bankers etc.) while for the latter (waiters, receptionists, bell-hop, drivers), the customer hardly takes them into consideration for their purchases or consumptions.

Caution The internal customers suffer through various types of conflicts due mainly to their boundary-spanning roles and the difference in the (inequity of) roles, responsibility and respect between two different types of providers.

10.1.2 Different Roles Played by Internal Customers

As mentioned in the previous section, by virtue of over dependence on people, internal customers play a variety of roles that stretch beyond the expected boundaries. V C Judd has developed a 2x2 matrix that leads to four categories of roles played by employees of a service firm. The matrix is based on the frequency of customer contact that employees have with customers and

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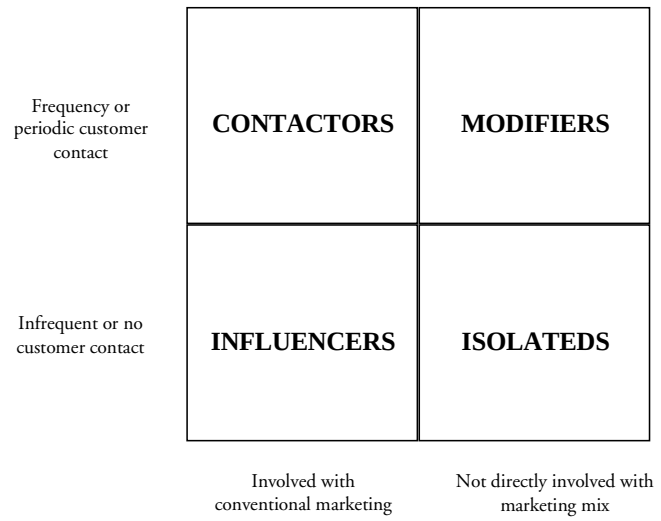
the involvement of the staff with conventional marketing activities. Analysis of the four groups and the consequent roles will reveal also the importance of the people factor to the following:

- The efficiency and effectiveness of the service firm
- Customer responsiveness
- Image and positioning of the firm, especially where lacking any relevant tangibility to service. They form the major part of differentiation of the service firm.
- Opportunity to create additional value, as Singapore Airlines have successfully adopted.

The four groups or roles are illustrated below:

Figure 10.1: Roles of Employees and their influence on Customers



Contactors: They possess above-average customer intuition, having very frequent contact with customers. They are very involved with all front line marketing activities like sales, promotions, handling customer enquiries and also complaints. They are often involved in the strategy aspects of marketing but are definitely deeply involved in the executions of these strategies.

Caution They make the maximum impression on the customers and are wholly responsible for Moments of Truth.

They are the ones who are to be trained to deal with customers, and situations - and require being highly motivated on a continuous basis. Selection of these personnel should be based on the parameter of their customer intuition, attitudinal characteristics and responsiveness.

Modifiers: These role players have regular encounters with customers and also go on to build the Moments of Truth of a service firm. Nevertheless, they occupy lowly points of interaction with the marketing activities. They constitute receptionists, switchboard and call centre personnel, and direct sales agents of banks, Para banks and insurance companies.

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Most faux pas occur in this role, when the service personnel end up interacting with customers without being fully aware of the management objectives and strategic goals. Customer relationship building becomes, then, one of the most important skills for these categories of employees.

Influencers: These role players are typically senior personnel who have planned and devised strategies but have very infrequent contact with customers. It is in their involvement with different marketing activities like marketing research, strategy, product development, and marketing communication that they influence the service firm.

A competent influencer is one who has the potential to develop customer responsiveness amongst his peers and subordinates. The entire objective and goal of influencers should revolve around developing customer orientation amongst the work groups and the organisation.

Isolated: These role players perform support functions like data processing, back office operations, maintenance, purchasing, etc. They do not interact with customers, nor are they deeply involved with the usual marketing activities. Nevertheless, their functions are critical to the effectiveness of the service firm.

Their isolation makes such service personnel insensitive to the needs and demands of both the internal and external customers. The bane of bureaucracy is due to this group. Not appreciating the organisational objectives and the overall vision (lacking a bird's eye view, as it's usually called); they tend to display minimum customer responsiveness.

Task Study motivation levels of any public sector bank's employees. Compare them with that of new private banks and foreign banks. Find out ways and means to increase the intrepreneurial qualities, which would lead to enhanced competitiveness.

Case Study

Nordstrom Uses People Profitably

Whenever customer service is discussed, department store Nordstrom is always quoted. This Seattle, US-based chain has over 60 stores in Washington, Utah, Oregon, Illinois, California, Alaska and Virginia. It is now a legend in having created a culture of the highest standards in customer service, and is the most respected amongst fashion retailers, – and highly profitable. It has been able to develop very high loyalty amongst its customer base due to its highly motivated sales force and no-questions-asked returns policy. This case details the 'Nordstrom way' in developing customer service as a highly effective marketing mix and examines the possibilities of Indian firms emulating them for differentiation, profitability as well as a decisive competitive advantage.

There are many legendary stories of Nordstrom's depth of customer service. In one, a lady customer demanded that Nordstrom replace her car tyres. When the customer associate enquired about the problem she pointed out to him the slogan of the store 'We take back goods. No questions asked' and refused any further explanation. The customer service associate referred back to the store manager who took the decision to replace the tyres with brand new ones. Funny thing was Nordstrom never sold that brand of tyres. When the top management heard of the incident, they did not admonish its manager for

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overstepping his authority; instead it gave to every employee a golden pen-stand in the shape of a tyre as a reminder of what the company stood for – excellence in customer service – and what all the employees should strive for.

Entrepreneurs: Nordstrom allows its people to operate like entrepreneurial shopkeepers rather than blocks in a retailing monolith. It gives sales people and managers a wide range of operational and cost controlling responsibility. This is mostly seen in their returns policy. The store takes back the sold merchandise, no questions asked, if the customers say that they aren't satisfied with them - for whatever reasons. This might be, and sometimes is, abused by customers but the Nordstrom customer service philosophy is not to punish the "98 percent for the dishonesty of a few". The company trains its sales associates to tell the customer, 'I guarantee [the return]. The company may not guarantee it, but I do.' That's a great selling tool."

Ann McLaughlin, Chairman, The Aspen Institute, described the return policy as symbolic of Nordstrom's authenticity. "They are authentic in that they say they're going to do something and they do it. They are authentic in how they represent themselves as a store to the customer." This is what she overheard a young woman in her twenties telling her mother while shopping at Nordstrom, about a pair of shoes that she was unable to decide: 'I really like them both, but if I decide when I get home that I don't want one, I know that I can always bring it back.' "I don't know how many times I've heard similar comments," she says. "That's the authenticity of Nordstrom living up to their commitment on their return policy. It emanates from their understanding of the customer."

An executive with a well-known Swedish-based manufacturer had purchased some $2,000 worth of shirts and ties at Nordstrom's Pentagon City, Virginia store. He had mistakenly washed the shirts in hot water and they all shrank. On writing to the store, and admitting that it was his mistake, he received a call from Van Mensah, a men's apparel sales associate, asking him to return the shirts – at Nordstrom's expense - and he would replace those shirts with new ones at no charge.

Question

What drives Nordstrom's sales personnel to out-perform all industry benchmarks? How has Nordstrom motivated its in-store personnel to become profitable and unique?

Self Assessment

State whether the following statements are true or false:

1. In a service firm, the employees have the role of information transmitting as well as representing the firm.
2. The insurance agents can be termed as modifiers.
3. The chefs at a restaurant are the influencers.
4. Retailers, wholesalers, BPOs, franchisee's, etc. are all known as internal customers of a service firm.
5. In personalized services people make a lot of difference.
6. The internal customers of a service organisation can serve as a basis for differentiation.
7. In service organisations, the role and performance of internal employees is linked to quality.

Notes

8. Internal customers of a service organisation also act as spokesperson of the organisation.
9. Influencers have most interactions or service encounters with the customers.
10. Isolated perform non-critical functions in the service firm.

10.2 Understanding and Managing Customers

By making the consumer participate in the service delivery process, the service firm harvests both benefits and challenges. The firm benefits from shared cost effect, and is able to make do with lesser service personnel. Additionally, customer participation makes him more responsible to the importance of the transaction, generating empathy.

Example: Some examples of such services are executive buffet lunch and shopping in superstores (self-service), e-shopping, entailing browsing as well as payment procedures, ATM transactions for banks including touch screen functions as well as making payments through cheques by using appropriate drop boxes. By using technology like the Internet, ATMs, etc., the service firm is also able to broaden the catchments area of its market.

Conversely, by inviting customer participation, the dangers seem to be many, too. The customer might simply be reluctant to participate, perceiving it to be bothersome and insulting.

In small towns, filling air in cycle tyres requires one end of the hand pump to be threaded on to the valve, before the pump is manually operated. Often, to speed up the process, especially in North Indian towns, the accepted practice is for the customer to bend down and hold the end of the tube on the valve himself while the cycle mechanic does the rhythmic working of the air. Many customers are disinclined to do the bending exercise and prefer to go to those shops which have air-filling machines or where the mechanic does the task himself, without asking the customer to assist him. It is a small example, but is true for most services. Some prefer home delivery to self-service in modern retailing; the services of a travel agent are still popular with some instead of browsing on the Net.

Secondly, with increasing customer participation, efficiency decreases and inconsistency creeps in, badly affecting service delivery quality and image of the firm. It is then mandatory for the customer to follow a 'script' to conform to certain standards of the transactions process. But the challenge would be to bring the differing needs and aptitudes of different customers in line with the scripting design. All customers may not have the knowledge or the confidence to operate the ATMs, touch screen systems or the Internet.

Customer participation can be influenced by adroitly using communication tools to show the bigger picture of benefits. Customers end up getting speedy service that has provision for customisation and convenience.

Example: ATMs and booking air or rail tickets through the Internet are examples, where 24x7 banking facility can be extended with security, and from many locations.

The key factor is in successfully generating trust and faith amongst the target markets and understanding the consumer buying behaviour.

Technology has definitely been a boon for service marketers. It has enabled them to not only extend their market reach but also effectively persuade the customers to increase their participation in the service delivery process. One can imagine the reaction of the customers if a

service provider like a bank manager asked them to help themselves to self-service. Technology, as an intermediary, has been the hidden persuader. Some examples of self-service enabled with technology usages are:

- E-commerce, especially Internet based shopping which includes merchandise browsing and payments (Rediff shopping, amazon.com)
- Automated filing of income tax and other legal claims
- Railway and airline reservations also known as 'e-Tickets' (irctc.com)
- Online trading and reconciliation (Indiabulls)
- E-auction participation and payments (e-Bay)
- ATMs
- Distance education (Direcway)
- Tracking of packages (DHL/AFL)
- Tracking of bank accounts and transactions (icicidirect.com)
- Internet information search (Google and other search engines)
- Interactive voice response systems

10.2.1 Higher Customer Participation

The ulterior motive of the service marketer to get customer participation is to increase productivity, efficiency, and customer satisfaction. Simultaneously, the goal is to reduce costs and uncertainty that comes from unpredictable customer behaviour. The service marketer can adopt the following strategies to make the customer come forward and participate more in the service delivery process.

Clear-cut Definition of Customer Jobs

The customer's participation begins with the inseparability concept, that is, his presence - in entertainment like a theatre play; a boat ride; in a hospital for treatment, etc. A higher degree of participation comes in the form of volunteering information (tax consulting, health check-up, counselling and psychiatric treatments, etc.). Maximum participation comes in the form of customers co-producing the service, often carrying out the instructions and suggestions (recommendations) of the service provider to achieve the desired goal.

Example: A consultant can only recommend, but the customer or the client would have the onus of implementation. Similarly, a customer can only achieve good health or become slim if he or she faithfully follows the instructions of the wellness consultant, or the recommended regimen by clinics like VLCC.

The service provider has to decide the level of customer participation - keeping in mind the pros and cons of it. Thus modern format stores like superstores and supermarkets have customers pushing their shopping carts/trolleys, and doing self-service, but such stores also suffer shoplifting and rearrangements of merchandise on display every day. Customers could also be persuaded to be Good Samaritans by helping other customers.

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Caselet **Committees at Work**

There is palpable excitement at ITM Business School, Navi Mumbai this academic year. Ranked 25th overall and 5th in the 'Wannabe's List' by Business Today*, it is witnessing frenetic activity amongst the freshmen. The all-India profile students have been divided into 20 committees under the catchall concept called 'UTKARSH' (Unleashing the Knowledge and Reaching Starry Heights). The B-school is practically run and managed by these 20 committees. Ideated by its Dean and Director Prof. A K Dasbiswas, and brainstormed amongst his faculty colleagues, some of the scope of UTKARSH includes:

- Academic - to check on syllabus and look for continuous up gradation;
- Placement - to manage the long drawn out task of interacting with prospecting employers for successful placements;
- Admission - to wholeheartedly participate in the entire process of student acquisition;
- Competitions - to effectively manage the total participation of students in all prestigious inter-B-school competitions. 2004-05 had been an extremely satisfying year for ITM, having won over ten competitions including the Tata Business Model Contest, IIM Ahmedabad/National Innovation Foundation Business Model Competition for grass roots innovation and having come up to the semi-final contest in the 'Imagine Cup' conducted by Microsoft.
- Cultural Events - to organize and participate in cultural events;
- Code of Conduct - to oversee the corporate governance inside the campus and amongst the student fraternity;
- Social Initiatives - to work and manage social initiative projects like 'ownership' of village uplifting activities;
- Publications and journals - to manage the publications of research and case studies in the institute.

The Infrastructure Committee's mandate is to keep the campus in spick-and-span condition including hostels, classrooms, the quality of drinking water and toilets, etc. The entire campus, with a quadrangle inside has the looks of a modern-day castle (it is an oft-chosen location for film-shoots, like Madhoshi). It bristles with features like wi-fi connectivity and India's first simulation lab for financial market analysis. The IT Committee seeks to be the support arm in maintaining the entire networks for the campus.

Source: *Business Today*, June 15, 2005

Customers can be influenced to be part of the communication programmes of the service marketer. By promoting the relationship with the customers to that of an advocate word-of-mouth and referrals can be used by the service marketer to its advantage. A university getting donations from alumni and a restaurant benefiting from its patrons spreading the good word are some of the examples of customer participation.

Compatibility Management or Managing the Variety of Customer Profiles

Service marketers are challenged during their service delivery, when handling groups of customers, like in a restaurant, airline flight, a concert or in tourism. The customers come from different backgrounds having different needs and characteristics. This alone makes the service

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marketer orient more towards customisation and veer away from standardisation. Adding to the challenge of mass customisation is the fact that the groups of customers tend to interact amongst themselves, influencing each other's experience of the service.

Example: In a restaurant there could be two families whose adult members are having a quiet dinner while, simultaneously, there could be a group of noisy collegians intent on having their brand of fun. The restaurant manager would have to give the best customer satisfaction to both the groups. The two groups could create images of the restaurants themselves. The adult family group might get disturbed and irritated and come to the conclusion that the restaurant patronizes the college crowd; conversely, the youthful diners, seeing the adult group, might perceive the restaurant to be 'not a cool place'.

Similar would be the case for an airline or a bank when it strives to serve a wide cross-section of customers. The language of communication (for example, in a bank) and the product-mix on offer (like vegetarian and non-vegetarian food for airlines) are just two examples that might challenge service providers.

Compatibility management is all about the process of managing a variety of customer segments that might be radically different from each other in profiles. Martin and Pranter defined it thus:

It is the "*process of first attracting homogenous consumers to the service environment, then actively managing both the physical environment and customer-to-customer encounters in such a way as to enhance satisfying encounters and minimize dissatisfying encounters*".

A service marketer should seek homogenous audience, and serve distinctive segments separately. The segment that Kishore Biyani is targeting through Pantaloons is different from that of Big Bazaar. Customers can also be made to adhere to certain norms and 'code of conduct' like adhering to 'Silence' and 'No Smoking' instructions.

Customer Acquisition, Education and Training and Appreciation

Customers should be recruited with clear-cut role enunciation, and their confirmation of the same. They can then be trained with instructions on what their 'script' and action should be. Before the flight, air stewards give a mime performance to airline passengers about safety devices, precautions and contingency actions to be taken. Customer handbooks and instruction booklets or service literature, also go a long way in customers 'educating' and preparing them well about and their roles in the service process delivery. Service firms can then reward customers through the right responses, through incentives, time-savings, thereby achieving better control on the service process.

10.2.2 Dealing with Difficult Customers

The quality of service transactions, surprisingly, depends to a great extent also on the characteristics and traits of the customers:

1. Education and background - like profession, skills, experience, family background, social circle, etc.

   A customer who is a professional, like a chartered accountant, will be in a better position to understand the savings account opening norms in a bank than an illiterate farmer. The latter would most probably require detailed explanations, in his mother tongue, and assistance in filling up all the forms. These would undoubtedly make the service transaction more time-consuming. In addition, the service delivery would suffer, if the provider was not conversant with the language of the customer or was incapable of coming down to the comprehension level of the customer.

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Example: An educated housewife could be helpless inside an ATM kiosk, if there was a "system fault" and would have to resort to 'manned' banking procedures.

2. The mood, attitude and personality of the customer, which might prevent a smooth service transaction.

Example: In a popular restaurant positioned for the family, when some rowdy non-family group disturbs the peaceful atmosphere, the service provider fails in delivering the promise.

The demeanour of the ill-mannered group is markedly different from the orderly behaviour of the rest of the family-type customers, and although they are smaller in number, they manage to ruin the experience of all other customers. This is also an uncontrollable factor for the service marketer.

Service transactions and the quality of service delivery depend a lot on both the provider and the customers carrying out their roles seamlessly as designed by the blueprints of operations. While it can to a great extent be possible to manage the quality of the performance of the internal customers, it becomes a challenge to extract compliant behaviour from the customers.

The customers of the same service firm and offer are different from each other due to the following:

- Differing backgrounds of education, family, occupation, income;
- Differing skills, attitude and aptitude;
- Differing moods, involvement, experience, awareness and perception.

If the service has to be delivered with consistent quality — and customers' participation is taken as mandatory for the service delivery – then the differences in the characteristics of the customers have to be taken into account by the service marketer. The customer has to be *managed*, which can be attempted in the following ways:

- Training and education of the customer;
- Choosing the appropriate segment of the customers that are desirable and manageable by the service marketer.

Training and Education of the Customer: As mentioned before, airline staff pantomime and give verbal instructions on flight safety procedures before takeoff to the passengers. Package tour operators give detailed instruction booklets and other information brochures to their customers and make them sign many clauses of conduct and disclaimers.

Targeting the chosen Segment: Citibank took the lead followed by other foreign banks and then later by most private banks, to keep a high minimum-balance-maintaining clause for its account holders. In the process they got to avoid the vast mass-banking crowd who were not only unprofitable (from their point of view) but also greatly differed in their quality of service participation.

Customer Retention Strategies: The service marketer should stress on retaining customers, as they are less expensive than customer acquisition. A retained customer will also contribute handsomely to the bottom line through positive referrals and repeat purchases over an entire lifetime. The service marketer can attempt four types of bonding with customers:

1. Financial bonds - through favourable pricing and incentives;
2. Social bonds - by way of personal and enduring relationships;
3. Customisation bonds - through mass customisation, feed forward and anticipation;
4. Structural bonds - joint involvement and integrated systems.

Self Assessment

Fill in the blanks:

11. Online ticketing system service is a high customer …… service.
12. The customer's participation begins with the …… concept/feature of service.
13. The …… decides the level of customer participation.
14. The service provider can form a …… bonding with the customers by giving him/her favourable incentives.
15. The service provider creates …… bonds with the customers by joint involvement and integrated systems.

10.3 Summary

- Service organisations could be perceived to be radically different in their approach to customer service and consistency in service delivery.
- A better skilled and trained internal customer would be able to communicate better with the external customer.
- Everyone seems to possess the same high skills in uniformity that makes it hard for the customer to detect any change in the service delivery. This goes a long way in putting the customer in comfort zones, preventing him from having any feeling of fear, anxiety or dissonance.
- The internal customers play various roles in an organisation: contractors, modifiers, influencers and isolated.
- By making the consumer participate in the service delivery process, the service firm harvests both benefits and challenges.
- The firm benefits from shared cost effect, and is able to make do with lesser service personnel.
- The ulterior motive of the service marketer to get customer participation is to increase productivity, efficiency, and customer satisfaction.
- Simultaneously, the goal is to reduce costs and uncertainty that comes from unpredictable customer behaviour.

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10.4 Keywords

Compatibility Management: Process of managing a variety of customer segments that might be radically different from each other in profiles.

Contractors: They possess over average customer contact.

Difficult Customers: People who challenge a service provider's ability to deliver service and who require special skills and patience.

Internal Customer: An employee who receives goods or services produced elsewhere in an organisation as inputs to his or her work.

Isolated: They perform support functions.

Modifiers: They have regular contact with the customers.

10.5 Review Questions

1. "Service providers adopt roles that span a wide boundary". Discuss
2. Discuss the various roles most likely to be performed by the employees an educational institute.
3. "By making the consumer participate in the service delivery process, the service firm harvests both benefits and challenges". Discuss
4. As a service marketer for a chain of multi-cuisine restaurants, how can you assure that customer participation increases service delivery efficiency?
5. Explain the role of customer education and training in banking services.
6. Do the service firms need to spend resources in developing their internal customers as well? Why?
7. Describe the concept of compatibility management in context of services.
8. Who is a difficult customer? If you were the service marketer/manager, what provisions will you make to deal with them?
9. What problems can customers create for the internal customers of an airline? How can they handle such problems?
10. Using, examples, contrast contractors, modifiers, influencers and isolated role players in a service firm.

Answers: Self Assessment

1.	True	2.	True
3.	False	4.	True
5.	True	6.	True
7.	True	8.	True
9.	False	10.	False
11.	Participation	12.	Inseparability
13.	Service provider	14.	Financial
15.	Structural		

10.6 Further Readings

Notes

Books

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, Third Edition, Prentice Hall, US

Valarie A Zeithmal and Mary JO Bitner, *Services Marketing: Integrating Customer Focus Across the Firm*, Tata McGraw Hill, New Delhi

Online links

http://www.entrepreneur.com/article/51804

http://www.acrwebsite.org/volumes/display.asp?id=7372

http://jsr.sagepub.com/content/3/1/66.short

http://www.smallbusinesssuccess.biz/articles_week/dealing_with_difficult_customers.htm

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Unit 11: Pricing of Services

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Objectives

After studying this unit, you will be able to:

- Describe the concept of price and value in services
- State the objectives of pricing
- Discuss various pricing approaches
- Identify various pricing strategies

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Introduction

You must have heard a famous line that says, "nothing in this world is free'. You have to pay a 'price' to buy products and services. Price is one of the most critical elements of the marketing mix for services - both for profit as well as not-for-profit firms. It is the only marketing mix variable which generates revenue; all others – product, promotion and place/distribution – are cost drivers.

Pricing is also one of the tactical tools least understood by the marketer. It is the most flexible of all marketing tools (mixes), and can be changed even at the retail level. Pricing decisions have far reaching implications for the organisations' profits, market share, sales and social appeal.

Pricing in case of services is more difficult than in case of products. If you were a restaurant owner, you can charge people only for the food that you are serving. But then who will pay for the nice ambience you have built up for your customers? Who will pay for the band you have for music? Thus, these elements have to be taken into consideration while deciding the prices of your food.

In this unit, we will do a detailed study of the pricing strategies of services.

11.1 Concept of Value and Price in Services

Price is what customers are willing to pay for services. How much a customer has to pay depends on the value he perceives in the service offer. The payment can be in many forms - money, barter, or return services. Price can be simply explained, thus:

Price = quantity of money received by service provider/quantity of service received by the buyer

Caution Price is a component of value. Most of us refer to price as value but they are not the same.

The consumer's perception of product quality changes with variations in price. The consumer makes a straight-cut analogy: high price = high quality. This 'black box' effect becomes a boon for services as its intangibility prevents consumers from evaluating the offer correctly. Price becomes very communicative and gives a convincing indication of quality. People have no other way of convincing themselves of the quality of restaurants or a hospital except by the price. That is how Nordstrom, the famous Seattle-based retailer, could differentiate itself from others by offering high-end services and could successfully position itself as an up-market value added.

Did u know? Stella Artois, which makes premium lager beer, slogans its high price as a virtue: "Reassuringly expensive".

Value is the ratio of perceived benefits of the service to be purchased to price and other added costs. Travelling **time**, hassles, **energy** costs, and **psychic** costs are some examples of added costs.

The customer has to endure monetary and other costs for the service. Guarantees, warranties, home delivery, quality, brands et al are examples of value as they are indicative of potential benefits in an offer. In sum, the benefits are product value, service value, personnel value and image value.

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- ***Product Value***: The worth assigned to the product by the customer.

Example: A customer might choose a Philips DVD because of superior features and technology.

- ***Service Value***: The worth assigned to the service by the customer. The customer chose Philips for its guarantees, warranties, large distribution networks, retail outlets and service centres.
- ***Personnel Value***: The worth assigned to the service-providing personnel by the customer. The customer bought it from a Philips showroom because of the personnel's superior product knowledge and customer-orientation.
- ***Image Value***: The worth assigned to the image of the service or the service provider by the customer. The customer chose Philips because of the name association with quality, innovation, etc.
- ***Monetary Price***: The actual rupee price paid by the consumer for a product; in the above example, for the Philips DVD.
- ***Time Costs***: The time the customer has to spend to acquire the service. For the customer who wanted to buy the DVD, this would include travelling time, product inquiry at various retail outlets, clarification, demonstration, sales and payment time at the Philips showroom as well as installation of the DVD.
- ***Energy Costs***: The physical energy spent by the customer to acquire the service. To purchase the DVD, the customer would have had to endure travelling hassles, shopping inconvenience, by himself or with the family, etc.
- ***Psychic Costs***: The mental energy spent by the customer to acquire the service, that is, worrying and aggravation. The customer would have suffered anxiety during the selection, delivery and installation of the DVD, especially if there were hassles. The last could happen, for instance, if the wall paint is scratched/scraped and furniture damaged during installation.

Self Assessment

Fill in the blanks:

1. …… is what customers are willing to pay for services.
2. …… is the ratio of perceived benefits of the service to be purchased to price and other added costs.
3. …… is the worth assigned to the service-providing employees by the customer.
4. …… costs refer to the mental energy spent by the customer to acquire the service.

11.2 Uses and Objectives of Pricing

The importance of pricing to the development of marketing strategy is reflected in the diverse range of strategic uses to which it is put:

- At the beginning of the life of a new service, price is often used to gain entry to a new market.

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Example: A firm of estate agents seeking to extend its operations to a new region may offer initially very low commission rates in order to build volume in that market.

- Price is used as a means of maintaining the market share of a service during its life and is used tactically to defend its position against competitors.
- Ultimately, for organisations working to financial objectives, prices must be set at a level that allows them to meet their financial objectives.

Caselet **Pricing at ICICI Bank**

The pricing decisions or the decisions related to interest and fee or commission charged by banks are found instrumental in motivating or influencing the target market.

The RBI and the IBA are concerned with regulations. The rate of interest is regulated by the RBI and other charges are controlled by IBA.

The pricing policy of a bank is considered important for raising the number of customers' vis-à-vis the accretion of deposits. Also the quality of service provided has direct relationship with the fees charged. Thus while deciding the price mix customer services rank the top position.

The banking organisations are required to frame two- fold strategies. First, the strategy is concerned with interest and fee charged and the second strategy is related to the interest paid. Since both the strategies throw a vice-versa impact, it is important that banks attempt to establish a correlation between two. It is essential that both the buyers as well as the sellers have feeling of winning.

Pricing Bank Products Starts with Three Basic Questions.

What rate does the bank need to meet its financial objectives?

The answer is, "it depends."

Some considerations for loan and deposit pricing are:

- ROA or ROE objectives
- Related income taxes
- Earning assets to total assets
- Equity-to-asset ratio
- Cost to service earning assets being funded or deposits funding an earning asset
- Pricing for the activities and risks associated with the product
- Rate tiers based on product balances
- Asset and liability mix.

Another element to consider in the pricing of earning assets is the risk of loss. Most notably, this is relevant in loan pricing. Many banks assign a risk weighting to individual loans over a certain size or based on loan type and assign a credit risk charge based on those ratings.

Contd...

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Customer relationships are difficult to assign a value to in the pricing process. Customers will generally press for some price concessions in consideration of other relationships they have with the bank.

Asset and liability mix also impacts pricing results. Generally speaking, banks operating with higher loan-to-asset ratios are able to afford to pay more for deposits. Likewise, banks can afford to be more competitive on certain deposit products if they have fewer maturities in a particular timeframe or less total outstanding balances in a product line.

What is the market rate for the core product?

Customers have more distribution channels available to them today than at any other point in history. In the past 10 years, the number of bank locations has increased 20%. Of course, there are the mortgage bankers, the Internet, and a host of other financial service providers competing for your customer's loan and deposit business.

The point is the competitive marketplace always ensures that if a financial institution is charging too much for loans or paying too little for deposits, its share of the market will likely dwindle as existing and prospective customers find alternative providers. You can do all the math you want to determine required pricing points, but if your pricing is uncompetitive, your market share will shrink.

What would the bank have to do to sales and operations to make its rates the most competitive in its market?

Pricing is a key issue for the associates who sell bank products to your customers. The fact is, lenders want the lowest rates, and people dealing with depositors want to pay the highest rates. You need the right balance of fee income, strategies to reduce operating costs, and a healthy asset and liability mix to change your required pricing.

Source: www.indiastudychannel.com/projects/4701-P-s-Marketing-For-ICICI-BANK.aspx

Organisational Objectives through Pricing

Profit or Income Related Objectives

(a) ***To Achieve a Targeted Return on Investment (ROI):*** Many service firms work on a target return on sales or on its investments as an objective. Thus, if Crossword, the book retailer, works on a 25 per cent return on sales, they would appropriately add an amount called mark-up to its cost of the book. The mark-up would cover most of its anticipated costs as well as make provision for profit. Targeted return on investment is taken by a firm with respect to its assets and liabilities, that is, its net worth. The industry leader mostly does this - as their pricing can be independent of competition.

Example: HDFC, the leading housing financier, can price its services to earn a net profit that is 20 per cent of its net worth.

(b) ***To maximize profit:*** Service firms require profit in order to enable them to pay dividend to its investors, pay rent and other utility bills, pay salaries and wages to its staff and also invest in new technologies and other expansion plans. But to maximize profits, the service firm requires data on its segments, possible sale in each segment at different prices, as also estimates of fixed and variable costs.

With these available data, it would be easy for Container Corporation of India (CONCOR) to calculate the combination of price and revenue that generates the highest profits. But those firms which do not have such developed marketing systems like Management Information Systems

(MIS), Marketing Research, Estimation and forecasting methods as well as Test marketing would not know their demand curves - and thus may not be able to pursue profit maximisation.

Volume or Sales Related Objectives

(a) ***To increase sales volume:*** A service firm pursues this pricing objective to grow rapidly (market penetration) and/or to discourage new entrant competition. The goal is usually described as a percentage increase in volume sales over a certain period of years. To achieve this, the service marketer could either discount the price or have an innovative pricing strategy.

Example: Sahara Air recently tried innovative pricing; Reliance Infocomm's entry-level "Dhirubhai Ambani Pioneer Offer" and then "Monsoon Hungama" pricing for its wireless in local loop (WiLL) mobile services are classic examples of such pricing objectives and strategy.

(b) ***To maintain or increase market share:*** The market share of a firm is indicative of its market position. Any slippage in market share will not only reduce revenues but would also be a public relations disaster. Market share can fall due to aggressive competition (better-priced rival products, better substitutes) or external factors like currency devaluation. The latter might make imports cheaper and exports expensive. Falling market share would make capacity utilisation impossible and increase idle cost. A hotel which loses market share will suffer such losses - apart from loss of prestige.

Status-quo Oriented Objectives

Prices are set only to maintain the firm's previous position - 'The most passive of all pricing goals.' The firm really seeks to avoid a price war.

(a) ***Competition rendezvous:*** Service firms that enter a market late - like most private insurance companies in India - try to set a price as prevalent in the market. The main objective is to make an entry in the market than to make a profit. Often, the new entrant safely brackets himself to a successful firm to get the same positioning and image without going through the hassles of complex decision making models. For example, a new B-school might structure its fees on similar lines as the competition.

(b) ***Price stabilisation:*** Here a service firm tends to "follow the leader" when setting its prices. The main objective is not to start a price war, which would be harmful to all the players.

Society Oriented Objectives

Certain service firms set prices not for profit, sales or beating the competition. Their objective is social responsibility or responsibility to the customer. They might actually make losses but the objective is the general benefit of society at large. Most metro railway ticket prices, public library memberships and postal services follow societal pricing goals.

Example: The Indian Postal Service might actually incur a net cost of ₹ 4.00 for a postcard but price it at one rupee. Most Non-Governmental Organisations (NGOs) price their offerings, like greeting cards, toys, wall hangings, etc., high with the objective of transferring their surplus for the service of social causes.

Notes

Self Assessment

Match the following sets:

Set A		Set B	
5.	Profit related objectives	a.	Bring about stability in prices
6.	Volume related objectives	b.	Become the market leader
7.	Status-quo oriented objectives	c.	Maximum ROI
8.	Society oriented objectives	d.	Provide benefits to the lower sections of the society

11.3 Framework for Pricing Decisions in Services

The service marketer has to make his pricing decisions after obtaining in-depth knowledge of his firm's costs, competitive strategies, government policy, the prevailing and potential demand and most important, his corporate objective.

- **Customer Demand**: Price elasticity of demand for offers has to be analyzed by the marketer. As mentioned before, services have inelastic demand; for goods this analysis is important - for forecasting, estimation, inventory management. The marketer has to consider the following factors which imply price elasticity of demand to be low:
  - Non-availability of competitive products and substitutes will keep demand unchanged even if prices are increased.
  - Price-quality perception.
  - Customer is resistant to change or to adopt new shopping behaviour.
  - Customers do not notice higher prices anyway if they are of higher income group or have urgency in service consumption - like an immediate surgery.
- **A service marketer's cost structure** - fixed, variable, direct and indirect components, as also their long-term impacts.
- **Corporate objective** of a service marketer could be a premium player (foreign banks like American Express), a mass/social service provider (State Bank of India and Indian Postal Service), a market skimmer, or to achieve market penetration, etc.
- **Government policy** will include taxation, excise, export and import duties, etc., all of which would greatly affect price.
- **Competitor reactions** whether they are from market leaders or bit players, will greatly affect price.
- **Entry and exit barriers** in the industry will affect price.

Self Assessment

State whether the following statements are true or false:

9. Price elasticity of demand for offers has to be analyzed by the marketer.
10. Entry and exit barriers in an industry will not affect the prices.

Notes

11.4 Pricing Approaches

It is important for a service management student to know the difference between price and pricing. While pricing is strategic, an activity under taken by the top management to decide the way revenue would come, price is tactical, a one-time decision affecting the whole organisation over a period of time. Price is the end result of pricing, which ends in a figure printed on the price-tag or label. It is through price (apart from the other elements of the marketing mix) that the firm would generate revenue, while pricing is a process leading to policy, on the basis of which prices of products are finalized.

There are four important bases for price determination:

1. What it costs to produce a service.
2. The amount that consumers are willing to pay for it.
3. The price that competitors are charging.
4. The constraints on pricing that are imposed by government and/or regulatory bodies.

11.4.1 Cost as a Basis for Pricing

Simply put, in this method of pricing, the service marketer adds up all his costs, adds his profit margin and the result is the price. The skill required of the service marketer is the ability to identify and measure the different types of costs: direct, indirect, fixed and variable, etc. If the marketer makes any error in identification or measurement of a particular type of cost input, then it is going to affect his profitability - and he may not even know about it. Worse, he may not know which service component is contributing to profits and which is not.

The cost structure of a service firm can be explained thus:

The total cost of producing a service can be divided into costs which are variable and those that are fixed. Variable costs increase as service production increases; fixed costs do not change even if an additional unit of service is produced. Fixed costs therefore cannot be attributed to any particular unit of output.

In spite of many disadvantages, there are many reasons why 'cost-plus' type pricing methods are so widely used in the service sector:

- Essentially a simple model to follow in pricing decisions, it can be adopted by entrepreneurs, small-scale service providers like restaurant-owners and leisure and tourism-oriented professionals like travel agents, tour-operators, etc.
- Prices are easy to calculate and especially in services, where the offer has to be tailored to the individual needs of customers, it is easier to empower price decisions for services.
- The predictive nature of the method helps the service marketer to better plan his resources and potential. He does not have too many variables affecting his plan outlay and therefore can look forward to realistic forecasts. With cost-oriented pricing method, the service marketer, like a travel agent, has a better knowledge of his earnings and expenditures.
- Cost-based pricing is adopted when the precise nature of the service that will actually be provided is not known at the outset or its details and components, etc., are unknown.

Example: Arranging for a conference or an event to bring doctors and surgeons for a pharmaceutical company. In this case, an agreement is made that the final price will be based in some way on costs.

Notes

- A service provider is allowed by many professional associations to increase prices beyond those originally agreed in his estimate - on the basis of the actual costs incurred.

Measured against these advantages, there are many problems for a service marketer to price his services on the basis of historical costs:

- Cost-based pricing does not take into account competition that a service might face at any given time. Neither does it take into account that some customers may value the same service more highly than others.
- It is sometimes more difficult to calculate costs in service than for goods – mainly due to the intangibility factor. The structure of costs facing many service businesses is typically different from goods.
- It is easier to determine costs for previous accounting periods (historical) than to forecast what these costs will be in the future (predictive).

Cost-based pricing can be of two types:

- Full cost or mark-up pricing
- Marginal Cost or Contribution pricing

Full Cost or Mark-up Pricing

Here prices are based on total or full cost plus the desired profit. Retailers would call this desired profit as mark-up. The break-even analysis is a variation of this method. As elaborated before, it does not take into account different types of costs. These costs, in addition, are affected by changes in the volume of output or the type of output. Full cost pricing ignores consumer demand.

Marginal Cost Pricing

A special kind of cost-based pricing occurs when service firms choose not to include their fixed costs.

Example: A student in a computer training school during the exam seasons, a customer in a Goa hotel during the monsoon, a visitor to EsselWorld theme park during the rainy season or a diner in a restaurant is charged not on the basis of total unit cost of producing the offer, but only the additional costs which result directly from servicing that additional customer.

This is normally used when most of the service firm's output has been sold at a full price that has recovered its fixed costs - but in order to keep its workforce engaged during the slack season, the firm reduces its price. In this way it manages to cover its variable costs.

Those service industries with low short-term supply elasticity and high fixed costs, like BPOs, use marginal cost pricing extensively.

Task Enlist the value and costs involved in purchase of a sports club membership.

Notes

11.4.2 Competitor-based Pricing

This pricing is based on what the competitor is offering. A service firm uses this method to make an entry in the market, finding an appropriate price bracket for its service offer - without having to go through a trial and error process - by pegging itself to the competition. The service marketer needs to be astute enough to recognize who his competition is. The competition could be from firms offering the same services fulfilling similar needs (direct competition - State Bank of India versus Canara Bank), different services fulfilling similar needs (substitute competition - a restaurant versus movie theatre versus discotheque) or similar services fulfilling different needs (indirect competition - a theme park like Essel world catering to tourists, lovers, recreationists, shoppers etc.)

Going Rate Pricing: This is used in those services where cost levels are difficult to establish, and a going rate is preferred.

Example: In one street a cluster of restaurants ('Khau gali" and 'Chowpatty' in Mumbai, 'Chhappan Dookaan' and 'Sarafa' in Indore, 'Paranthe wala Gali' in Delhi, etc.) serve basically the same fare at the same prices. The same is true for apparel stores, electronics or books in one street ('Fashion Street' and 'Heera Panna' in Mumbai). Charging a going rate is an easy way to avoid calculation of costs.

Sealed-bid pricing: This is the system of tenders and quotations where bids are received from service providers. Thus housekeeping, restaurant and canteen contracts, security services, fleet operations, etc., are usually awarded on the basis of predetermined specification fulfilment and their offer price. The appropriate price and therefore the provider are chosen.

Pricing below the Competition

Here, the new entrant service provider will price his offers below the competition, with the full intention of increasing his market share at the time of consideration. Thus, an airline that intends to slash its prices will definitely acquire more customers trading off against profitability. The danger to this approach is that the service marketer might price himself out of business or might invite price retaliation. This will increase commoditisation of the service, make customers very price sensitive and may forever remove concepts of value and brands. The size of the market actually comes down. Often, cash discounts are offered. Certain service providers, like discount retailers, base their lower-than-the-competition price on low mark-up, high volume and minimal service.

Pricing above the Competition

This kind of pricing works only for premium or very distinctive services. If the target market is class (foreign banks, high-end boutiques like Sheetal, Concorde aircraft flights, up-market restaurants, etc.) as opposed to mass, then this pricing method works. But if there is a general recession, then above-the-market pricing is unsustainable.

11.4.3 Demand-based Pricing

This is based on what the customers are prepared to pay. Different customers have different upper-ceilings on the price that they are willing to pay for a service. The skill required for a service marketer is a fine knowledge of consumer demand and the consumer's ability to pay (correct identification of the early adopters, middle-majority and laggards in a market) Price discrimination logically takes place here.

Notes

The discrimination is carried out on the basis of groups of users, points of use and types of use.

Groups of user discrimination: Here the same service is priced for different groups of users depending on their ability as well as willingness to pay.

Example: Haj pilgrims are charged lower tariffs when compared to the business or leisure traveller. Similarly, the Government of Maharashtra has floated a controversial proposal to differentially price school tuitions based on the parent's income.

But essentially this pricing is based on fine segmentation and the customer's willingness to pay. Thus mobile phone tariffs were unbelievably high (when compared to prevalent rates) when introduced and targeted first to the innovators and then to the early adopters. Indian Railways offer lower tariffs to price-sensitive senior citizens; the rationale could also be social, intended for the pensioners. It is easier to do this kind of discrimination in services than for goods as the customer cannot resell the lower priced offer to someone else profitably.

Points of use/consumption discrimination: Different prices are charged from different points of service delivery. This is leveraging the locational advantages of the provider. Thus, retail stores have different price tags in up-market or posh localities than in suburban locations.

Example: The Indian telecommunication department has different tariff structures for rural areas and for metros. Hotels located near airports or downtown areas have higher tariffs; the Taj and the Welcome Group hotels will, in Agra, have different tariffs for those rooms that give an unrestricted view of the Taj.

Time-of-use discrimination: A service industry is usually open to the vagaries of demand and seasonal demands, as it cannot be stored and resold later (perishibility) and has to be produced and consumed at the same time (inseparability).

Example: Hotels in Goa would have unoccupied rooms and Esselworld will have only romantics and rain-dancers during the monsoon. Similarly, while the matinee show in a movie theatre will have vacant seats, the evening shows could be overflowing.

Thus, during peaks, customers will be willing to pay more (notice higher flight tariffs during the summer holiday season as well as during winter!). Thus also, the telephone and mobile services companies usually have lower (or even zero tariff between two preset numbers) tariffs during off-peak periods like 9 p.m. onwards up to 9 a.m.

Case Study

Sandeep's 'Space Bar': A College Stores' Pricing Strategy

Sandeep's 'Space Bar' is a merchandise outlet in an academic campus, which has engineering, medical, architecture, and management and hotel management colleges. Sandeep's 'Space Bar' sells new and used texts, stationery and related products, signature goods (sweat shirts, T-shirts, hats, and so on, with the school's name and emblem), newspapers and magazines, candy and gum, gift items and greeting cards, small appliances, and dormitory products (such as health and beauty aids, food items, and laundry supplies) to current students, their families, university personnel and alumni.

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Notes

Ajay Bansal, the store manager, is in the process of evaluating the profitability of the overall store and its various departments. Of special interest is the store's pricing strategy. Ajay is under pressure from the university's controller to generate improved profits, while still serving the needs of customers. For example, the store must carry products used by dormitory students even though they have low inventory turnover.

Bansal is aware of several factors that affect the store's profitability and sales.

- The profit margins on new texts are quite low relative to operating costs. While the store prices new texts using a 22 percent mark-up at retail, its costs of doing business are about 24 percent of net sales. The store must also pay freight in (on text purchases) and freight out (on text returns due to over-ordering). It is common for the store to over-order texts, since professors do not want them to be out of stock. Freight costs can average 2-4 percent of net sales for new texts.
- While the initial profit margins on used texts are 40 percent at retail, Ajay really does not feel that these texts are all that profitable. Considerable time is spent by store employees in purchasing used texts and determining their quality (different prices are established for excellent, good, and fair quality). The store also has problems in being 'stuck' with an old edition or with having to transport texts to a wholesaler when faculty decide to no longer assigns a current title.
- Even though signature goods have been priced at a full 50 percent mark-up at retail, the store has had large problems with size assortments. The store's buyer assumed that these goods are staples and purchased them in a standard size distribution; he did not foresee the current appeal of oversized clothing. Even 50-kg students want extra-large sizes. As a result, the store has had to take large unplanned markdowns. Much older merchandise remains unsold.
- Dormitory items must be stocked to accommodate students, but many of these items are slow-moving. It is hard to get students into the bookstore to purchase health and beauty aids or small appliances, even with special sales. Many students report purchasing these items at neighbouring supermarkets or on their trips to home. They believe that the college store has above-average prices and does not have a sufficient selection.

Table 1 contains data on planned versus actual sales, mark-ups, operating expenses, and profit for the most recent year. Ajay Bansal wants to review these data carefully in planning his pricing strategy for the coming year, and in deciding whether to add a personal computer line.

The engineering and business schools plan to require entering freshmen to purchase personal computers within the next two academic semesters. This policy will affect three hundred new students per year. Although the personal computer business represents a significant opportunity (units can be sold for more than ₹ 33,000 each if fully configured with a graphics board, a monitor, and a printer). Bansal has two major concerns. One, he estimates that there will be a 10-15 percent mark-up if the store stocks computer units and handles warranty shipments for students. This may not be enough to compensate the store for the space and inventory risk. Personal computer prices typically drop 15-20 percent per year, and a new configuration may also render a peripheral (such as a graphics board) obsolete. Two, many students will be able to get better prices through mail-order merchants. These merchants do not charge sales tax to out-of-state purchasers.

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Table 1: Sandeep's Space Bar's, planned Versus Actual Profit Data (for the most recent academic year)

	Total	New Texts	Used Texts	Signature goods	Health & Beauty aids	Other
Net Sales	1085000	600000	300000	70000	15000	100000
Cost of goods sold	764600	469700	182800	42100	10600	59600
Initial mark-up at retail	334250	132000	120000	35000	5250	42000
Retail reductions	13850	1700	2600	7100	850	1600
Operating expenses	260400	144000	72000	16800	3600	24000
Net Profit	60000	13700	45400	11100	800	16400

Actual Data

	Total	New Texts	Used Texts	Signature goods	Health & Beauty aids	Other
Net Sales	1088000	630000	270000	50000	10000	128000
Cost of goods sold	770100	487800	180400	27100	7000	67800
Maintained mark-up at retail	317900	142200	89600	22900	3000	60200
Operating expenses	280000	162132	69485	12868	2574	32941
Net Profit	37900	19932	20115	10032	426	27259

Allocated on the basis of percentage of overall sales.

Questions

1. Describe why Sandeep's Space Bar did not reach the planned goals as depicted in Table l.
2. Using the data in Table 1, compute the initial and maintained mark-up percentage for the total store and each product category. Explain the differences.
3. Recommend a pricing strategy to improve the store's performance.
4. If the store decides to carry personal computers, what pricing strategy should it use?
5. Explain the pricing method followed by Sandeep's Space Bar.

Self Assessment

Multiple Choice Questions:

11. Which of the following is not a variable cost?
    a. Sales personnel's compensation
    b. Electricity charges
    c. Raw materials charges
    d. Rent of the facility
12. …… cost pricing is a special kind of cost-based pricing occurs when service firms choose not to include their fixed costs.
    a. Full

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b. Half

c. Average

d. Marginal

13. For which of the following services, pricing above the competition would work?

a. Axis Bank

b. Indigo Airlines

c. Leela Kempinski

d. Idea

14. In a movie theatre, the morning shows tickets are priced less than those of evening shows. This is …… price discrimination.

a. Group of user

b. Time of use

c. Point of use

d. Place of use

11.5 Pricing Strategies

11.5.1 New Service Pricing Strategy

In developing a price strategy for a new service, two key issues need to be addressed:

- What price position is sought for the service?
- How novel is the service offering?

Task Compare the prices at Café Coffee Day with those at local coffee shops. Prepare a report to illustrate your findings and analysis.

11.5.2 Price Skimming Strategy

Saturation Pricing Strategy

The success of a saturation pricing strategy is dependent upon a sound understanding of the buying behaviour of the target market, in particular:

- The level of knowledge, which consumers have about prices.
- The extent to which the service supplier can increase prices on the basis of perceived added value of the service offering.
- The extent to which the service supplier can turn a casually gained relationship into a long-term committed relationship.

Notes

11.5.3 Service Portfolio Pricing

A number of product relationships can be identified as being important for pricing purposes:

- Optional additional services
- Captive services
- Competing services
- Price Bundling

11.5.4 Tactical Pricing

Some of the tactical uses of pricing are analyzed below:

- Tactical pricing can provide short-term competitive advantage.
- Tactical pricing can be used to remove unplanned excess supply.
- Short-term tactical pricing can be used to protect markets against new entrants.
- Discriminatory pricing with respect to time that may have been part of the strategic pricing plan can be implemented by a number of tactical programmes.
- Similarly, discriminatory pricing with respect to place must be translated from a strategic plan to a tactical programme.
- For discriminatory pricing between different consumer segments, the problem of turning a strategy into a tactical programme hinges on the ease with which segments can be isolated and charged different prices.
- Tactical pricing programmes are used to motivate intermediaries.

11.5.5 Pricing Strategies for Public Sector Services

The pricing of services which by their very nature require a high degree of central planning, but which are expected to exhibit some degree of marketing orientation, present particular challenges to marketers. It may be difficult or even undesirable to implement a straightforward price-value relationship with individual service users for a number of reasons:

- External benefits may be generated by a service, which is difficult or impossible for the service provider to appropriate from individual users.
- The benefits to society at large may be as significant as the benefits received by the individual who is the immediate recipient.
- Pricing can be actively used as a means of social policy.

11.5.6 Internal Market Pricing

A number of possible solutions to the problem of internal pricing can be identified:

1. If an external market exists, a 'shadow' price can be imputed to the transfer, reflecting what the transaction would have cost if it had been brought in from outside.
   (a) Where no external market exists, bargaining between divisional managers can take place, although the final outcome may be a reflection of the relative bargaining strength of each manager.

Notes

(b) Corporate management could instruct all divisions to trade on an agreed full cost pricing basis.

(c) A system of dual pricing can be adopted where selling divisions receive a market price (where this can be identified) while the buying division pays the full cost of production. Any difference is transferred to corporate accounts.

2. A proportion of the internal service producer's fixed costs can be spread over all resource users as a standing charge, regardless of whether they actually use the services of that unit. This would enable the internal supplier to compete on price relatively easily, while still allowing resource users for whom a higher standard of service is worth paying a premium to buy in their requirements from outside.

Self Assessment

State whether the following statements are true or false:

15. The success of a saturation pricing strategy also depends on the level of knowledge, which consumers have about prices.

16. Tactical pricing can provide short-term competitive advantage.

11.6 Summary

- Price is one of the most critical elements of the marketing mix for services - both for profit as well as not-for-profit firms. It is the only marketing mix variable which generates revenue.
- Price is what customers are willing to pay for services. How much a customer has to pay depends on the value he perceives in the service offer. The payment can be in many forms - money, barter, or return services.
- Value is the ratio of perceived benefits of the service to be purchased to price and other added costs. Travelling time, hassles, energy costs, and psychic costs are some examples of added costs.
- An organisation attempts to achieve a variety of objectives through pricing like profit or income objectives, volume or sales related objectives, status-quo oriented objectives and society related objectives.
- The service marketer has to make his pricing decisions after obtaining in-depth knowledge of his firm's costs, competitive strategies, government policy, the prevailing and potential demand and most important, his corporate objective.
- The firm has to consider the consumer demand, cost structure, company objectives, government policies, competitor policies and entry exit barriers while deciding on the prices.
- There are four important bases for price determination: What it costs to produce a service, the amount that consumers are willing to pay for it, the price that competitors are charging and the constraints on pricing that are imposed by government and/or regulatory bodies.
- In Cost-based method of pricing, the service marketer adds up all his costs, adds his profit margin and the result is the price. The skill required of the service marketer is the ability to identify and measure the different types of costs: direct, indirect, fixed and variable, etc.

Notes

- There are two approaches to cost-based pricing: full cost or mark-up pricing and marginal cost pricing.
- Competitor-based pricing is based on what the competitor is offering. A service firm uses this method to make an entry in the market, finding an appropriate price bracket for its service offer - without having to go through a trial and error process - by pegging itself to the competition.
- Demand-based pricing is based on what the customers are prepared to pay. Different customers have different upper-ceilings on the price that they are willing to pay for a service.

11.7 Keywords

Full-cost Pricing: prices are based on total or full cost plus the desired profit.

Going Rate Pricing: keeping price that is prevailing in the market.

Marginal Cost Pricing: occurs when service firms choose not to include their fixed costs.

***Price*:** The amount customers are willing to pay for the service.

Price Skimming: it is a pricing strategy in which a marketer sets a relatively high price for a product or service at first, and then lowers the price over time.

Sealed Bid Pricing: system of tenders where bids are received from service providers.

Value: ratio of perceived benefits of the service to price and other added costs.

11.8 Review Questions

1. "Pricing is one of the tactical tools least understood by the marketer". Discuss
2. "Consumer makes a straight-cut analogy: high price = high quality". Is this a right approach? How can marketers make use of this mindset of consumers?
3. Explain how pricing can be an effective tool while entering a market and trying to expand market share.
4. Suppose you are the marketing head of a travel and tour company. What factors will you keep in mind while deciding prices for your tour packages?
5. Which pricing approach would be most suitable for an airline firm and why?
6. Is price equal to pricing? Substantiate your answers with examples.
7. "Price is only a component of value". Substantiate
8. Explain the pricing policy adopted by Big Bazaar.
9. Contrast the pricing strategies of Airtel and Vodafone.
10. If you were salon owner, what factors would you keep in mind while pricing your services? What strategies would you use to price your services?

Answers: Self Assessment

1. Price
2. Value
3. Personnel value
4. Psychic

Notes

5.	c	6.	b
7.	a	8.	d
9.	True	10.	False
11.	D	12.	D
13.	C	14.	B
15.	True	16.	True

11.9 Further Readings

Books

C Bhattacharjee, *Services Marketing,* Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US

Leonard L Berry, *Great Service: A Framework for Action*, the Free Press

Online links

www.marketingteacher.com/Lessons/lesson_pricing.

www.va-interactive.com/inbusiness/editorial/.../pricing

www.netmba.com/marketing/pricing

www.pricingmanagement.com/

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Unit 12: Distribution of Services

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Objectives

After studying this unit, you will be able to:

- State the need of intermediaries and role of intermediaries
- Discuss how distribution channels are designed
- Identify the prerequisites of choosing intermediaries
- Describe the growth options and internationalisation of distribution

Introduction

A distribution channel consists of a set of people or firms who are intrinsically involved in the transfer of goods or services from the producer to the end user. The end user could either be an individual consumer or an industrial consumer. A channel of distribution includes the producer of the goods and services, the consumer of the same and a series of intermediaries like wholesalers, dealers, retailers, agents, etc.

Place in case of services determine where is the service product going to be located. The best place to open up a petrol pump is on the highway or in the city. A place where there is minimum traffic is a wrong location to start a petrol pump. Similarly, a software company will be better placed in a business hub with a lot of companies nearby rather than being placed in a town or rural area.

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In this unit, you will learn about the role service intermediaries, how they are chosen, and a service firm can grow and internationalise the distribution of their services.

12.1 Delivering Services through Intermediaries

While for goods business, distribution's role in the marketing mix is to get the product to its target market, there are other, larger implications:

- Arrange for its final sale;
- Transfer title (ownership) to the goods from the producer to the consumer;
- Promote the product;
- Store and stock the product (which further implies higher risks of thefts, breakages, losses, etc.);
- Transportation of the goods to its destination (which implies shouldering the financial and other risks).

While a producer can handle these functions, they are so complex and different from his core areas, that he employs the services of a series of middlemen or intermediaries. These are specialists in their respective areas, like a warehouse service provider, dealer, retailer, etc.

Caution In the case of services, as mentioned earlier, the offer has to be produced and consumed at the same time in the place of offer (outlet).

The middlemen are classified on the basis of their taking title or ownership of the offers being distributed:

- Those who take title to the goods and services are called merchant middlemen, like wholesalers and retailers.
- The middlemen who do not take title to the offer, because of the nature of the offer or their business, are known as agent middlemen. They earn a commission or a fee for the services rendered and facilitates the transfer of ownership to the consumer.

Example: These would be real estate brokers, agents of manufacturers like arms (Bofors) and expensive Computerized Numerically Controlled (CNC) machines, travel agents, etc. Services invariably have agent middlemen.

12.1.1 Why should Service Firms use Intermediaries?

Service firms use intermediaries because of the following reasons:

- **Specialisations**: Manufacturing of goods is vastly different from managing a distribution network. The two are very much specialized operations in their own way. While the former requires the optimum usage of material and human resources to produce goods, the latter's main concern is to move the finished goods to the desired destination and customers in the shortest possible time in the most cost-effective way. With the use of intermediaries, the manufacturer could concentrate on his core area.

  But in the case of services, since the offer was produced and consumed in one place, and it was mostly intangible, the question of distribution problems was not very acute; the service transaction itself and its quality was the main issue. In the production and

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distribution of services, the wide variety found in the specialisations in the case of goods was absent.

Service firms had a different kind of dilemma: to own its outlets or get the distribution done through franchisees. Thus the only distribution problem of NIIT, the computer education major, would be to make faculty available to its franchises. Most major decisions are one-time decisions unlike in goods distribution. Only services like retailing that have higher tangibility content will face the same complexity in distribution as faced by goods manufacturers.

Did u know? The key to the success of Wal-Mart has been supply chain and logistics management and perhaps it is no coincidence that all their CEOs have been ex-truckers!

- **Customer Utility**: Customers require choices in their preferences and this was offered to them by retailers through varieties and assortments. This way, the customers could compare the merchandise and choose the best buy according to their judgment. With a company going direct, the ensuing 'difficult comparison effect' prevented naturally anxious people from buying the single offer; low involvement customers went for the convenience of the marketer coming to them, and either paid more in the process or paid less with less choice. The intangibility of services might have reduced the scope of the consumers to compare the offer features, but nevertheless encouraged enquiries and clarifications from at the distribution outlet.

Example: customers for a holiday package in the outlets of SOTC/Kuoni Travel or Thomas Cook might compare destinations, price, duration and time, add-ons in the offers.

One of the most successful e-business firms has been auction major ebay, which has truly lived up to the promise of an e-biz enterprise - no stock, no middlemen and minimum interference. It has successfully replaced middlemen by enabling its customers to compare features of the goods in auction (from Mercedes cars to old books) and then bid for them. Its success has helped eBay create a community of 30 million and revenue of $20 million!

- **Complexity**: When any business - be it goods or services - is small, it is easier to manage it. This includes the complete marketing mix as well as the environment. But as any business grows, so does its complexity. To facilitate the exchanges of goods and services there arose an urgent requirement of complex systems for each type of goods and delivering them to the consumers.

Example: An FMCG major in many cases only owns the brands and outsource many complex functions like manufacturing, logistics, advertising, marketing research, media planning and buying, warehousing, branding and packaging, etc. These are great ways to control costs, and improve cash flows.

- **Distance**: With the strategic decision of a firm to extend its geographical reach for its goods and services, there developed a gap between the producer and the end-user. This could only be filled by middlemen and intermediaries.

Example: SOTC/Kuoni, the innovative package tour company is a classic example in services. Mumbai based, it yearned for a wider customer base and took the help of intermediaries to achieve its goal. Thus Frequent Travels, a travel agency was initially roped in to be its representative in Madhya Pradesh. But SOTC went on to have its own outlet at Indore, catering to its package tours.

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12.1.2 Role of Intermediaries

Intermediaries play the following roles:

- ***Information Flow:*** The intermediaries like retailers, wholesalers, dealers, stockists, agents, buyers, etc., are important sources of information for the marketer. They are in touch with their respective customers, other traders and competitors and this information flows to the service marketer with careful management. The intermediaries are also one of the early warning systems for any of the following changes:
  - ***Customer demographics and psychographics:*** A retailer will come to know the changes in the customer profile in his catchments area, their spending capability, addresses, average family size, occupation, their lifestyles and attitudes etc. So will an agent for a life insurance company or an agent in the real estate business. Wholesalers are a source of information about the strengths and weaknesses of the retailers.
  - ***Media habits:*** The retailers, news agents and cable operators have their fingers on the pulse of the media habits of the public, and the service firm should be astute enough to tap this source. They are much updated on which TV channels are watched by which segment of viewers.
  - ***Entry of a new competitor, brand or the practice of a new marketing method or promotion:*** The retailers, wholesalers and agents are also the most important sources for any changes or entry in the composition of competitors. If a new brand or service product enters the market, the service firm could be alerted by its distribution chains. Similarly, if a competitor tries out a new promotion scheme and if it happens to be effective (or ineffective, as the case may be) the service firm would be better off being warned than taken by surprise. For example, in the fast growing cellular phone services, the effectiveness of one competitor's promotion scheme is tracked by others.

Example: Wal-Mart was in possession of a large cache of information about customers through scanning of bar codes of goods purchased through its retail stores. This was eagerly sought to be accessed by large FMCG companies like Unilever and Procter and Gamble.

The service marketer avoids the use of middlemen like dealers, stockists, warehouses and wholesalers, etc., because of the intangibility factor. Service retailing would entail servicing the consumer with information or the service itself. Thus, the authorized sales outlets of a mobile phone service provider would keep not only the SIM cards but also handsets, while handling bill payments, enquiries, etc.

- ***Promotion Flow:*** While the service firm does 'external marketing' to its customers using the mass media or through direct marketing, the channel or the intermediaries are an essential route for promotional information to travel from the former to the latter. The service firm uses the channel to implement its 'push' and 'pull' promotion strategy meant for the intermediaries and the external customers respectively. The channel is also the source of information on the effectiveness of the promotions.
- ***Pre-Sales Service:*** It is thanks to the channel members that the manufacturers or the service firms have been able to reduce the number of contacts with the customers and concentrate on their core offers. The channel members and other facilitators take part in other marketing activities preceding sales like pricing, packaging, marking and assembling goods to suit the final consumer.

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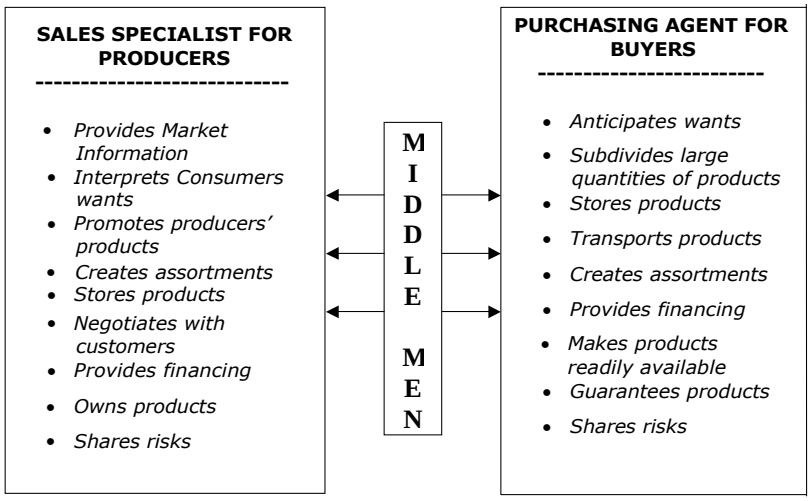
- ***Price Stability:*** Often, the intermediaries absorb price hikes to give an image of stability to the customer. The continuity of price is an attempt at overcoming intra-intermediaries competition.
- ***Post-Sales Service:*** Intermediaries give post-sales services like home delivery, installation and maintenance and repairs. They also channel the money received as payment, in the reverse direction.
- ***Title to the Goods:*** Although this does not really work in services due to the intangibility factor, it is very relevant in retailing. Intermediaries like retailers take title to the goods and services and do transactions in their own name. The middlemen share the risks with the vendors of the merchandise and physical possession of the goods enables them to service the customer's demands in time.

Notes Activities of a Retailer



12.1.3 Designing Effective Distribution Channel

It is not necessary that firms in similar services should have the same distribution systems. Nor is it necessary for service firms to choose only one distribution system. Insurance firms can choose to distribute its policies through its advisors or agents; through its own employees in branches; or through intermediaries and direct sales agents.

Example: ICICI Prudential and OM Kotak are two private insurance companies who sell their products through advisors, the Internet auctioneer Bazee.com, etc.

A service firm should choose a distribution channel in line with its strengths, which would satisfy its customers and beat the competition. The following decisions should be taken sequentially:

1. ***Specifying the role of distribution:*** The service firm should be clear about the role it envisages of distribution in the context of the other elements of its marketing mix. The distribution should synchronize with the other marketing orientation and objectives. A courier and package delivery firm can use distribution in order to be as good as the

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competitors (defensive strategy) or to derive some competitive advantage over the others (offensive strategy).

Example: Domino's Pizza has used distribution and not its pizzas (product) to derive competitive advantage. Similarly Grameen Bank of Bangladesh has used its unique distribution methods to become a case study in effective rural banking. There was no creation of expensive retail branches: its banking services were spread through relationships.

A customer of some service would bring other customers, gaining incentive points, and would also stand guarantee for them to be responsible for the collection of payments.

2. ***Selecting the type of channel:*** The service firm must then choose the most suitable distribution channel for its offers, which should be effective in achieving the firm's goals. This is where a need for an intermediary would be felt, and a decision on the type of middlemen should be taken accordingly. For a firm in the goods business the array of choices are many - with various benefits and consequences.

Example: A book publisher can, at the retailing level, choose from book stores (speciality), catalogue or mail-order, a Web retailer like amazon.com, discount stores, flea markets (footpath vendors), department stores, convenience stores (at petrol pumps), and direct marketing firms who use personal selling, etc. The book publisher could also go for middlemen as wholesalers. Similarly, new general insurance entrant Royal Sundaram could choose freelancing agents, direct marketers or mail-orders to achieve its organisational goals.

3. ***Determining the intensity of distribution:*** The firm has to decide on the intensity of distribution. If it is intensive, then the number of middlemen required would be more at each level of distribution. But if the distribution is limited, as in the introduction or trial stage, say, then there will be less number of middlemen.

Example: In the goods business, marketers whose products have high technology and have high obsolescence (Microsoft and computer hardware manufacturers) will need intensive distribution for rapid market penetration. But diamond monolith De Beers would look for limited distribution for its prestige products like Nakshatra Diamonds, underscoring their exclusivity.

Services require both intensive and limited distribution.

Example: Deutsche Bank and Bank America looked for limited distribution to focus on corporate finance and other value-added services and class banking as opposed to SBI's mass banking. Worldwide, coffee latte major Starbucks has chosen intensive distribution while up-market jeweller Tiffany's has limited distribution.

4. ***Choosing specific intermediaries:*** Once the service firm has decided on the channel, it now has to choose specific firms.

Example: If OM Kotak chooses to sell its insurance online, it could choose from a host of e-business firms like rediff.com, bazee.com, yahoo.com, etc.

The service firm has to choose specific firms in specific towns that would enable it to cover specific markets. The service marketer should assess the strengths and effectiveness of the intermediary member in achieving the desired market penetration.

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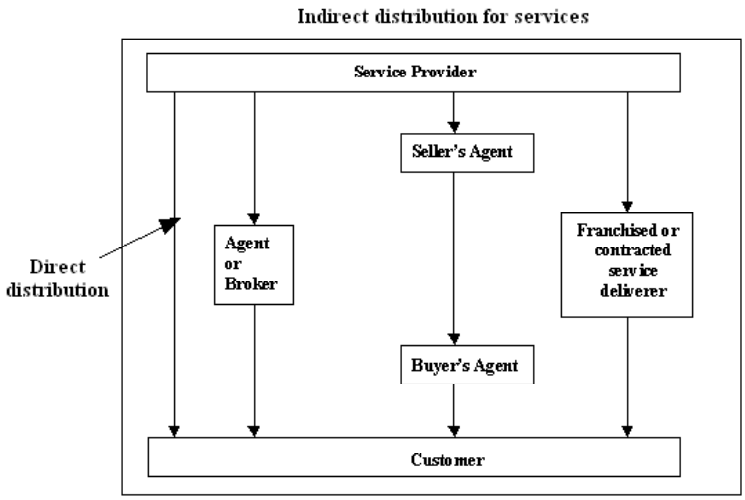
12.1.4 Types of Intermediaries

There are two types of channels at the disposal of the marketer:

1. ***Direct distribution:*** This is a channel that has no middlemen and consists of only the producer and the end user. The firm reaches directly to the consumer and the service industry mostly uses this method of distribution. Only those goods marketers who have strong finances and can afford to lock up a lot of their capital in inventory or whose products have high technology (hi-fi speaker and other audio equipment manufacturer Bose Corporation) adopt direct distribution. Thus a service firm can choose to go direct if it has well trained personnel, as in the case of hospitals, hotels and education services.

2. ***Indirect distribution:*** This distribution consists of the producer, end consumer and at least one middleman or intermediary. For consumer and industrial goods distribution, there is more than one intermediary while services have one middleman, the agent. Airlines use the indirect method, which includes travel agents.

Figure 12.1



Task Enlist 5 companies that follow direct distribution and 5 companies that follow only indirect distribution. Also draw the distribution process for any one of them.

Multiple Channels

Sometimes service marketers resort to more than one channel of distribution for the following reasons:

- ***Targeting a wider market:*** To get a wider penetration a virtual swamping coverage is done by using multiple channels.
- ***Avoiding over-dependence on a single channel:*** A service marketer could become vulnerable to unreasonable demands in the later stages if it is distributing through only one channel. To spread the risk of dependence, many service marketers like credit card marketers have more than one channel.

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- ***Targeting different segments:*** To make different segments feel that they are being offered exclusive service products for their segments, distribution is made through different channels. Rural areas are sparsely populated and can be covered through agents while in urban clusters it is feasible to go direct with own sales personnel. Some areas may not have the services of specific channel members or intermediaries. Then the service marketer can go direct in some areas and through intermediaries in other areas.
- ***Targeting different markets:*** like industrial/institutional markets and consumer markets. Many travel and insurance service firms have direct sales operations for large firms while they use the agent route for individual consumers.
- ***Selling different and unrelated service offers:*** like banking and insurance of life and general insurance or mutual funds and travel services, etc.

Caselet

General Sales Agents Fracas: The Rumble

The travel agents are becoming reluctant to share the intermediary commission with the GSAs. Their opinion was that as they were the first line of contact with the customers and the most visible aspect of the service firm, they were anyway doing most of the marketing for the airline, handling enquiries and performing such other services as forwarding complaints and carrying on promotions for the airline.

With the adoption of CRS the world over, there was more direct contact between the airlines and the travel agents. With the airline deregulations, there was heightened competition and pressure on margins felt across the board by all parties - airlines, travel agents, hotels etc. A case was being developed to remove one layer of intermediary to improve the bottom line. The GSAs were being phased out in most countries, especially in Europe and the USA.

There was a further boost to this movement by certain technological developments and their adoptions (CRS and the Internet) by the consumers, intermediaries and the airlines.

India was one of the last markets where the GSAs were still functioning. The airlines were not too keen to completely do away with the GSAs. They were useful by their presence in smaller markets where it would not have been cost-effective for the airlines to have a permanent office. Often the smaller markets had no flights of the airlines taking off but had a lot of passengers who took the flights from major centres, and therefore needed to be serviced. There was a major confrontation with the travel agents and the airlines came to a compromise: The GSAs would not be present in the metros but could operate in smaller towns.

Thus, British Airways decided to retain the services of DKI Travel Services only in Pune, Nagpur (Maharashtra), Goa, Indore (Madhya Pradesh), Jamshedpur (Bihar) and Bhubaneshwar (Orissa), etc. It had a lot of passengers from these places, which caught their flights from Mumbai. DKI serviced them, and enabled the travel agents to do the ticketing by constantly updating them on tariffs, and other product details. Travel agents like Jose Travels or Frequent Travels in Indore, could book a British Airways flight for a passenger through a CRS like Galileo installed in their office.

DKI Travel Services seemed to have got a breather and a reprieve. But there were looming storm-clouds that still threatened its existence: Billing Settlement Plans. BSP is a radical change driven by globalisation, an attempt at an industry-wide standardisation. Airlines

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will no longer have their uniquely designed tickets (like the retail banks do for their cheque books). On the CRS there will be an electronic ticket which would be the same for all airlines. The travel agent will insert the name of the chosen airline by the passenger, flight details, as well as other details like food preferences etc. The payments will be collected by the retail banks. (Citibank has taken the lead in clearance gateway) and distributed to the airlines and the travel agents. Thomas Cook the leading corporate travel company has tied up with CRS major Galileo to make out the first of the e-tickets. The airline actually benefits the most as a lot of the work of billing and commission disbursements are being handled by the banks and they get to avoid the collection problems.

Where does DKI Travel Services go from here? BSP is not only threatening to replace the GSAs but also the travel agents. With universal adoption, the latter might find themselves redundant. Installation of CRS in retail banks as one of their e-businesses is a major possibility and the banks might then perform all travel-related work like reservations, booking and tour packages themselves. American Express, which has a major presence in travel through its Travel Related Services (TRS) division and a minor one in retail banking, handling credit cards, traveller's cheques etc., is perfectly poised to make the cross-over. Citibank is another banking institution ready with technology and other resource capability.

Many GSAs are adopting unique strategies to remain in the travel business. The Delhi based Inter-Global, a ₹ 250 crore turnover monolith is a GSA for a dozen foreign airlines including Varig of Brazil and SAS of Sweden. It also is the India representative of CRS major Galileo and does marketing for a host of tour package companies.

12.1.5 Factors Affecting Choice of Channels

The primary factor that affects the choice of channel for a service firm is the nature of the market and the service consumer's buying behaviour. The secondary factors that affect channel choice are the service product, the intermediaries and the service firm itself.

Target Market Considerations

The following target market characteristics greatly influence the choice of channels:

Type of Market: If the end users are individual consumers, they would be better serviced by retailers; for business or institutional consumers, it would be more feasible to use direct marketing. Thus, cell phone service providers use retailers for selling their SIM cards to individual consumers and have their own sales personnel to service institutional consumers.

Volume of Consumers: If the number of consumers is large, then middlemen are used (travel agencies); if the consumers are lesser in number, like business consumers, then the service firm uses its own sales force (advertising agency and client servicing).

Geographic Cluster: If the consumers are clustered in a certain geographical area then it would be feasible for the service firm to use its own sales force

Example: Computer servicing in the Central Business Districts like the Fort area, Nariman Point and Belapur in Mumbai; Nehru Place and Connaught Place in New Delhi; Chowringhee in Kolkata, etc.

If the customers are scattered over the geographical area, then travel costs might make having dedicated sales personnel a costly proposition. Intermediaries are used for such market.

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Size of the service contract: If the size of the service order is large, then the distribution is most of the time direct; if the service order size is small, and then intermediaries are used.

Example: Radhakrishna Hospitality Services is in the catering and food supply business and has a turnover of over ₹ 600 crore; it prefers to use its own sales personnel to service large business orders.

Service Offer Considerations

The choice of channel is greatly affected by whether the offer is a good or a service. Thus the characteristics of a service product, like intangibility, perishibility, inseparability, etc. are major influencers.

Perishability and Intangibility: Lack of storage makes middlemen redundant in service distribution. There is no need for holding inventory, breaking bulk or giving varieties and assortments. Those services which have a higher degree of tangibility in the product-service continuum will require the services of intermediaries (for example, retailing in general, travel, restaurants etc.); those which have the minimum tangible components will be able to achieve their organisational goals through direct marketing (for example, in counselling, psychiatry, medical and legal services, etc.)

Concept Product: If the offer is highly technical and conceptual, making it very difficult for the consumer to envision the end product, benefit and usage, then personal selling and very persuasive marketing would be required. Services like insurance, time-sharing resorts etc. require concept selling and therefore the use of own sales personnel. It would require higher involvement from the service firm in servicing the customer before and after the sales.

Unit Value of the Service: If the service value is small, like collection of bills for cell phone services, then the distribution is done through intermediaries. If the unit value of the service is large, like leased line connectivity for the Internet through ISPs like Satyam, or managing the complete travel business, often the firm does direct distribution.

Intermediary Considerations

The channels chosen by the service firm are greatly influenced by the quality, category and availability of intermediaries.

Availability of Intermediaries: There may not be any intermediaries doing business in the service firm's chosen areas or even if they exist may not be available to the service firm as they may be associated with its competitors. In either case, the onus of developing the intermediary or going for an alternative channel lies on the service provider.

Services Provided by the Intermediaries: An intermediary is chosen for his capability of providing those services which the service firm would normally not be in a position to provide. For international service firms, this would include contacts, market penetration, legal and other services and storage. Services which are on the tangibility continuum, like restaurants (McDonald's, Pizza Hut, KFC etc.), souvenir shops, retailers, etc. as well as tele-info-communication service providers like cell phone operators and cable channel television will require intermediaries. It will not be feasible for the service firms to involve themselves in the services that the intermediaries can provide.

Attitudes of Intermediaries towards the Service Provider: The intermediaries might have negative or antagonistic attitudes towards the policies of the service provider and may not be willing to be associated with them. In that case, the service firm might have to look at alternative

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channels, like going for direct distribution. There is already a groundswell of resistance against the entry of mega retailer Wal-Mart in India by several sections of the industry: traders, other retailers, suppliers, politicians, opinion leaders, etc.

Service Firm's Considerations

A major factor that influences the choice of the channel is the service firm's own considerations, priorities and situation.

Desire for Greater Control of the Channel: Service firms who lay great store by the right service experience, where an encounter leads to a positive experience by the customer and finally customer retention, would like to take control of the service delivery process and therefore service distribution. This happens when the service is critical to the offer, and a stronger control on service quality is required.

Management ability of the Service Producer: Some service firms may not have distribution ability commensurate with or demanded by their service offer design and delivery. Intermediaries are then involved in the distribution of the service offer.

Financial Resources of the Service Firm: A service firm strong in its finances or financial access will be able to distribute its offers itself; a weaker firm might farm out the distribution to middlemen. Distribution of the service through such channels like franchising and intermediaries like franchisees helps a service firm to increase its capital and get its service brand spread in a cost-effective way.

Example: Computer education pioneer NIIT charges a hefty twenty-five lac rupees for each of its franchises.

Services Provided or Shared by the Firm: The choice of a channel is decided by the service producer depending on the types of services demanded by the intermediaries. The middlemen like retailers of mobile phone products selling SIM cards, handsets, etc., insist that the glow signs, tradeshows and exhibition costs are shared by the service firms. Many retailers insist that the service firm spend on national advertising, which should precede distribution. If the demands are felt to be unreasonable, then the service firm must seek alternative channels of distribution.

Case Study

Indian Coffee House

The Indian Coffee House (ICH) is now a part of the youth and cultural milieu of India. It has over 250 branches of its unique restaurants all over India delivering a consistent fare of good food in warm ambience and grace, with a flavour of colonial India and leisure. Born as a South Indian idea, it is now well spread in nine states – over Central India (Madhya Pradesh and Vidarbha region of Maharashtra), and thinly in the South, East (Kolkata), and North (New Delhi). It has, over the years, metamorphosed from a humble coffee house into a chain of restaurants. It was started by the Indian Coffee Plantation Workers' Cooperatives in the 'fifties and is registered and headquartered at Jabalpur, a colonial town in Madhya Pradesh. It has multiple outlets in Jabalpur, Indore, Bhopal, Raipur, Gwalior, Nagpur, Kolkata, New Delhi, etc. Its original mission was mostly social and two-fold:

1. To popularize the usage of coffee in the predominantly tea-drinking North. The strategy was market penetration as well as market development – increasing coffee

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consumption and finding new customers. This would have the beneficial, cascading effect of establishing an enduring and growing market for the coffee plantations' produce.

2. Find opportunities of employment for the families of the plantation workers. With coffee consumption restricted to South Indians, there was not much growth for the industry and the families of the plantation workers were witnessing a squeeze on their disposable income. The concept of ICH turned out to be a viable idea for an alternative source of income for the children of the plantation workers. The generic brand (South Indian Coffee or 'filter' coffee) was extended to a service brand (Indian Coffee House).

ICH has successfully enlarged its operations and mission in scale and scope. It is now a popular hangout for the college-going youth and families wanting a decent evening out, going beyond retailing coffee to experiencing a coffeehouse atmosphere.

Atmospherics and Society

Coffee House in Kolkata (not an outlet of Indian Coffee House) is legendary in its atmospherics – for facilitating ideas, discussions, creativity and conversations. It was the favourite haunt of writers like Sunil Gangopadhyay and Samaresh Basu; authors like Mrinal Sen and Buddhadeb Dasgupta; artists and critics; amateur fringe movements and students. But it has become unviable and was on the verge of closure when populism drove the Left Front Government of West Bengal to contemplate its nationalisation!

This strategy is especially commendable as it was tried in an era of Indian business when 'grace' as part of customer service was neither much understood nor catered to with any urgency for customer acquisition, retention or image differentiation. It has been successful in targeting both the youth and the family – normally an irreconcilable target cluster - with a clever mix and match of Servicescapes, locations and offers. Outlets like the ones at New Market, Bhopal; Cantonment, Jabalpur; Civil Lines, Allahabad; and Takshashila University Campus, Indore (all from Madhya Pradesh) have successfully acquired the image of a hip place, rendezvous point and place to be seen at. ICH is highly visible and distinct in many ways.

Fare/Offer

1. ***Food:*** ICH progressed from 'only coffee' to snacks and full meals. A diner can now get authentic South Indian fare – the ubiquitous idli, vada, sambar, uttappam, 'filter' coffee, etc. – to continental, Chinese and North Indian dishes. No liquor is served in any of its outlets, with the family as the firm target and keeping its coffeehouse image intact. With menu-items priced reasonably (lower than at other restaurants), and with attention to quality and service, all its outlets soon became popular haunts in most cities where they were set up.

2. ***Accommodation:*** This was a unique offer, albeit available only in a few locations and in selected towns, like Cantonment, Jabalpur; Jaistambh Chowk, Raipur; New Market, Bhopal, Gwalior etc. The accommodation was in the form of rooms and dormitories and guests could stay for over a month too. It was mostly preferred by South Indians on business travel, as transit stays due to transfers in their jobs or changes in careers etc. ICH never went in for any advertisements and depended on word-of-mouth publicity to pull in guests.

3. ***Coffee beans:*** It became a place for people, mostly South Indians, to get authentic coffee beans they would grind at home and use in their percolators for freshly brewed coffee.

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Servicescapes and Physical Evidence

Started during the colonial times, ICH management tried hard to relate to the era. The waiters, who were mostly Malayalis from the coffee plantation areas in the South, were dressed in white with ornate turbans flaring rakishly into a peacock fan and green cummerbunds (with red cummerbunds for head whiters). Then there was the rookie waiter, more simply dressed in white with a Gandhi cap. His main job was to constantly clean the tables and fill up the water-glasses... but never to take an order.

The early outlets had high ceilings with wood panelling, huge curtains and red jute carpets. In ICH Nagpur, one still finds old posters of advertisements for coffee consumption, now sepia-toned and appearing quite quaint and old-world. There is an air of time having stood still, with muted noise, and a laid back atmosphere. There are separate sections for families and partitioned cabins for the romantics.

Locations

Indian Coffee House had the early mover's advantage and could get into locations in prime areas. They also spread into multiple locations in a city, leveraging their brand image. ICH had a unique location strategy: keep the service outlet small and keep them many. To take a typical example, in a town like Indore, Madhya Pradesh (population 2 million); it has as many as six outlets. They are in high traffic areas as well as in old, sequestered business districts. The outlets are in the campus of a medical college (delightfully under banyan trees as well as with a regular indoor format giving the impression of a bistro), in the main street of business, near a university campus etc. They have been adept at choosing their locations very well – either at the crossroads of high-traffic junctions or where there is a captive market with nary a competitor in sight, like a college campus.

One is tempted to ask: What is the successful mantra of Indian Coffee House? The answer is very simple: consistency of products, service, imagery, and the ability to control costs.

A customer who has travelled a lot and is looking for familiarity in food and other services at reasonable cost and consistent quality, looks forward to Indian Coffee House. Its success in its positioning is such that even if he stays in an up-market hotel, he would prefer to have his breakfast, lunch, snacks, coffee and dinner – all at an ICH around the corner.

Ironically, this is the business model that it sought to practise, and has been successful in doing, much before Starbucks Coffee Company became a global brand name.

An analysis of, and a comparison with, Starbucks Coffee Company, the 2,000-outlet coffeehouse chain, with a growth of over 50% should be revealing:

1. ***Consistency*** of products and services such that it "successfully replicates a perfectly creamy café latte in stores from Seattle to St. Paul."
2. ***Owns all its outlets*** and thus is able to maintain control over all that takes place inside it. ICH owns only the old outlets or has long-lease agreements in most properties and therefore has been able to keep its décor and designs unchanged. In the new outlets it has had to improvise, but has kept the imagery unchanged through the uniform of the waiters, offer and service. Another Indian firm that comes to mind in this context is Bata, the shoe giant that has successfully straddled two industries: the goods business of manufacturing shoes as well as the service business of shoe retailing. It owns all the stores or has a long lease on them, the retail store employees are on its payroll, etc.

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3. ***Employee Training: Learning to be a Barista:*** Those employees that prepare the coffee are called Baristas (Italian for those who prepare and serve coffee) and all are called partners. Every month over 400 people are trained to call, make drinks, clean espresso machines, and deliver quality customer service and are given an exhaustive education on 'coffee knowledge'. ICH too makes its rookie waiters go through a grinding trainee period, making them learn the art and science of taking orders, maintaining good humour, and giving quick service.

4. ***Ensuring product quality:*** Starbucks makes its employees go through 'retail skills', a technical training on how to clean the oil from the coffee bin, open giant bags of coffee beans, clean the milk wand on the espresso machines etc. Since Starbucks also sells espresso machines, they are taught how to 'brew the perfect cup at home' so that they in turn can teach customers how to replicate perfect coffee at home.

5. ***Service Standards:*** No pot of coffee sits on a burner for more than 20 minutes. Unused coffee in espresso machines is purged regularly. No employee goes home in the night without completing cleaning, and polishing everything according to the service manuals. McDonald's ensures that none of its cooked buns sits for more than ten minutes; if there are no orders, and then it is incinerated. All employees are expected to take turns in cleaning the floors and tables, clearing the bins and also the toilets.

6. ***Star Skills:*** Starbucks' barista turnover is 60 per cent when compared to the 140 per cent average for the fast food industry. To get the best of employees, keep them motivated and improve interpersonal relationships amongst them, Starbucks has three guidelines:

   (a) maintain and enhance self-esteem

   (b) listen and acknowledge

   (c) ask for help

   Starbucks has other motivators like higher-than-average pay, health insurance, Employees Stock Option Plans (ESOP) etc.

7. ***Joe, a Magazine:*** Starbucks has tied up with Time Inc., part of the giant media group AOL Time Warner, to publish Joe, a cultural review, which is sold in North American outlets. It is subtitled 'Life is Interesting: Discuss', and seeks to replicate the free flow of ideas in a coffeehouse.

Questions

1. Indian Coffee House chose to extend its product brand to a service brand through company-owned outlets. Discuss the advantages and disadvantages of expanding through licenses and franchisees and compare them with company-owned outlets.

2. Can a conclusion be drawn that only a certain type of food retailing can be distributed only through franchisees? Explain your answer.

3. What service marketing strategies should a service chain adopt to garner the following benefits: control, consistency and maintenance of image?

4. Make a comparison of Indian Coffee House with Kamat, Woodlands, Nirula's and McDonald's in their channel distribution methods.

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12.1.6 Managing Channel Conflicts

Channel conflicts arise amongst channel members when one starts perceiving that the other is a roadblock to his progress. Channel conflicts can also take place when some members perceive differential benefits being given by the service firm to other members.

Horizontal and Vertical Conflicts

There are horizontal and vertical channel conflicts. Horizontal conflicts occur among service firms in the same channel. Thus there might be conflicts between one package-tour Company and another through its channel members. One agent of the travel firm will be in conflict with another agent of another travel firm. This could be due to multiple travel business associations of one agent in conflict with the prevalent understanding.

Example: The associations of travel agents might boycott a certain travel management company for some non-compliance of association ground rules; one travel agent might defy the unwritten ban and might garner business for the travel company.

This resultant conflict amongst agents would be a horizontal conflict.

Vertical conflict occurs amongst members of the same channel across different levels. This kind is the most frequently occurring conflict in channels. It occurs mostly amongst service producers, agents, franchisees and brokers. The conflict could be due to differing perceptions of roles, duties, responsibilities, expenditures, etc. The intermediaries might expect the service firm to foot most, if not all, of the promotional expenses, while the service firm expects the reverse. Conflict can also arise when the service firm uses multiple distribution channels (direct as well as agents and franchisees) or bypass the middlemen in any other ways. Too much control on the channel by the service firm is another source of conflict.

A service firm should take extreme care in the distribution of his service offers. The perception of the consumer about the firm and the quality of offer is based entirely on the type and quality of service encounter that takes place at the point of distribution. All channel conflicts should be resolved and the distribution should be a cohesive whole to the service delivery.

Self Assessment

State whether the following statements are true or false:

1. It is not necessary that intermediaries work directly under the control of service firms.
2. Intermediaries in insurance sectors also provide word-of-mouth publicity to the customers about a particular brand of insurance.
3. All courier services use distribution to garner competitive advantage.
4. An education counsellor getting into a conflict with an education controller is a vertical conflict.
5. Internet distribution is cost effective.
6. Indian railways follow direct distribution strategy.
7. Educational institutions generally follow indirect distribution network.
8. The place of offer of services is referred to as outlet.
9. The retailer has the best knowledge of consumer requirements, so can influence the manufacturers to produce those goods. The process is known as pre-sales flow.

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10. A hotel uses its distribution strategies well enough to keep abreast with the other popular hotels. This is known as offensive strategy.

12.2 Growth Options and Internationalisation of Distribution

It is imperative for the service firm to control the intermediaries to attain their strategic goals - be it in terms of image, profit, revenue, efficiency, effectiveness of performance, etc. But the problem invariably lies in the perception of the role of the intermediary: as a customer, partner or an extension of the service firm. SOTC/Kuoni would thus always be pondering over how it should take on its intermediaries - as customers to its designs and services, extensions of itself like franchisees or as partners in the marketing mix. Thus, accordingly, there are a variety of intermediary management strategies namely control strategies, empowerment strategies and partnering strategies to grow the distribution channel effectively:

Control Strategies: This strategy can be implemented only when the service principal is more powerful and assertive than the intermediary and dictates the terms of control, compliance and conformance. The service principal derives its power from the following:

- It possesses intimate knowledge of customer preferences;
- It is in possession of unique services and process know-how which has customer demand and loyalty;
- It has access to economic resources and wields other forms of economic power, like deciding compensations, territorial over-rides, new promotional schemes, setting goals and targets, etc.

Thus it can ensure the best performance of the intermediary if it can set up standards for revenues and service performance, measure results and accordingly administer compensation.

Measurement of the intermediary's performance is done by the service firm by monitoring internal data like sales figures, turnovers etc., external data generated through regular customer surveys and competition analysis. Customer surveys are used to develop the Customer Satisfaction Index (CSI), which is used as a performance benchmark.

Review of the intermediary's performance is done through judicious usage of quotas, sales goals, termination of contracts, non-renewals, restrictive supplier sources, expansion of networks by co-opting more intermediaries leading to encroachments in territories, etc.

Empowerment Strategies: This strategy is mostly used when the service principal is new, and the intermediary is a known player, financially strong and has local clout politically. The service firm thus becomes non-assertive, lacking the power to govern the channel through control strategies. A lot of autonomy and flexibility devolves on the intermediary with the belief that participation instead of plain acquiescence would bring out its talents. Empowerment of the intermediary is done by providing information, research and processes that will help them to perform better.

The intermediary may be too small a player to afford research studies, advertisements, etc. The service principal shares analyses of research studies with its intermediaries to make them get a better idea of the service background and trend. This knowledge will help them to improve their service process and service delivery. Life Insurance Corporation of India (LIC) shares with its agents/advisors the research data on the policy holders to enable them to sell policies effectively.

With information circulated, there will be some intermediaries who may not have any knowledge of implementation. The service principal then supports them in implementation through consulting, training, etc.

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The intermediaries might require systems support to enable them to deliver their service properly. The service principal then shares systems with the intermediaries. Airlines and also many hotels give support to travel agencies for ticketing through Computerized Reservation Systems (CRS).

Partnering Strategies: This approach is used when the service principal and the intermediary both are on an equal footing in the power equation. It seeks to synergize their skills and strengths, stressing the importance of trust and relationships. This strategy has the highest potential for being effective, and the stress is to learn as much as possible about the customers, improve service delivery, communicate effectively and build standards of excellence.

Partnering becomes most effective when there is successful goal alignment between the service principal and the intermediary. The service principal should take a proactive role in co-opting the intermediaries in a goal-stressing exercise and aligning them to one common goal. Partnering strategy also includes involving the intermediaries in the decision-making processes — ranging from compensation, service quality and service environment to service delivery.

Apart from directly entry, the service firm can expand its distribution network in both, domestic and the international market by:

- ***Mergers and Acquisitions:*** it refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity.

Example: Kingfisher Airlines and Air Deccan merged to expand their distribution network. Kingfisher caters to the classes and Air Deccan to the masses, so the alliance with get the customers from both the sections.

- ***Joint Venture:*** They are entities formed by two or more individual entities for growth of global market share.

Example: Wal-Mart has teamed up with Bharti to start up its operations in India.

- ***Strategic Alliances:*** is a formal relationship between two or more parties to pursue a set of agreed upon goals or to meet a critical business need while remaining independent organisations.

Example: Alliance between One World and Star is only a strategic Alliance

Task Name some service firms that have entered the Indian market taking the JV or strategic alliance route.

Self Assessment

Fill in the blanks:

11. The Future Generali insurance group is a …… of Future Group and Generali of Italy.
12. …… intermediary management strategy is mostly used when the service principal is new, and the intermediary is a known player.

Notes

13. …… intermediary management strategy is used when the service principal and the intermediary both are on an equal footing in the power equation.
14. …… is a formal relationship between two or more parties to pursue a set of agreed upon goals.
15. Virgin Mobile has teamed up with …… to distribute its mobile network services in India.

12.3 Summary

- Manufacturing of goods is vastly different from managing a distribution network. The two are very much specialized operations in their own way. While the former requires the optimum usage of material and human resources to produce goods, the latter's main concern is to move the finished goods to the desired destination.
- The intermediaries like retailers, wholesalers, dealers, stockists, agents, buyers, etc., are important sources of information for the marketer as they are in touch with their respective customers, other traders and competitors.
- It is not necessary that firms in similar services should have the same distribution systems. Nor is it necessary for service firms to choose only one distribution system.
- There are four basic steps in designing an effective distribution system: Specifying the role of distribution, selecting the type of channel, determining the intensity of distribution and choosing specific intermediaries.
- Basically firms resort to two types of distribution systems: direct and indirect. But many firms also follow a multiple channel distribution.
- The primary factor that affects the choice of channel for a service firm is the nature of the market and the service consumer's buying behaviour. The secondary factors that affect channel choice are the service product, the intermediaries and the service firm itself.
- Channel conflicts arise amongst channel members when one starts perceiving that the other is a roadblock to his progress. Channel conflicts can also take place when some members perceive differential benefits being given by the service firm to other members.
- It is imperative for the service firm to control the intermediaries to attain their strategic goals - be it in terms of image, profit, revenue, efficiency, effectiveness of performance, etc. But the problem invariably lies in the perception of the role of the intermediary: as a customer, partner or an extension of the service firm.
- There are few options that can lead to an effective and growing distribution network: empowering, controlling and empowering strategies. To grow in international and domestic market, firms also resort to mergers and acquisitions, joint ventures and strategic alliances.

12.4 Keywords

Direct Distribution: consists of only producer and end customer.

Horizontal Channel Conflict: it occurs between intermediaries at the same level in a marketing channel, such as two or more retailers.

Indirect Distribution: producer, end consumer and at least one intermediary.

Joint Venture: entities formed by two or more individual entities for growth.

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Mergers: combining of two or more companies.

Strategic Alliance: relationship between two or more parties to pursue common goals.

Vertical channel conflict: it occurs between members at different levels of a marketing channel, for example manufacturer-wholesaler or wholesaler-retailer discord.

12.5 Review Questions

1. How does the inseparability feature of services necessitate requirement of intermediaries?
2. Service firms often face dilemma while deciding on distribution issues. What is their dilemma? Is there any solution that you can suggest?
3. You have just started a restaurant in a city and you want to expand your business to more cities. Critically analyse the idea of appointing intermediaries.
4. Suppose you are the marketing manager of an institute that provides preparation courses for IIT. What steps would you take to expand your network all across India?
5. Critically analyse both direct and indirect modes of distribution. Include examples in your analysis.
6. If you are the marketing head of a DTH service company, how would you go about choosing a particular type of service channel?
7. Critically analyse the distribution growth options (both national and global) available with a firm.
8. Explain the distribution strategy adopted by Bharti Wal-Mart in India.
9. Discuss the intermediary management strategies. Give examples to explain each strategy.
10. How the perception of the role of the intermediary makes it difficult to manage them?

Answers: Self Assessment

1.	True	2.	True
3.	True	4.	True
5.	True	6.	False
7.	False	8.	True
9.	False	10.	False
11.	Joint venture	12.	Empowerment
13.	Partnering	14.	Strategic alliance
15.	TATA Teleservices		

12.6 Further Readings

Books

C Bhattacharjee, *Services Marketing,* Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US

Leonard L Berry, *Great Service: A Framework for Action*, the Free Press

Notes

Online links

www.managementhelp.org/prod_mng/dist.htm

www.infotrends.com/public/.../distributionstrategies.

www.web-articles.info/e/a/title/Distribution-Strategies

Notes

Unit 13: Promotions and Servicescapes in Services

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Objectives

After studying this unit, you will be able to:

- Realise how an integrated communication program is developed
- State the guidelines for service communication
- Discuss the role and relevance of elements of service communication mix
- Explain the concept of servicescapes

Introduction

This unit will include a detailed study of how integrated communications program is developed and how Servicescapes are designed.

Promotion is a tool that service marketers have used to great advantage in positioning their service, adding tangibility and value to their offer. Promotion is used only as a temporary tool and is communication oriented.

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Promotion consists of the following major areas of marketing: advertising, public relations, sales promotion, personal selling, word of mouth and direct mail. These areas are called the promotion mix or the communication mix. The service marketer can use a blend of all of these to achieve his communication and other goals.

Servicescapes can be defined as the environment in which the service is assembled and in which the seller and customer interact, combined with tangible commodities that facilitate performance or communication of the service. It was understood by marketers that the immediate environment in which service delivery takes place has a great role to play in enhancing the quality of the service experience and encounter. They therefore went all out to manage the Servicescapes.

13.1 Developing Integrated Communication Program

The word 'communication' is derived from the Latin word *communicoi,* meaning 'to share'. Communication needs an objective that the service marketer must set and achieve.

Following are the components of the communication programme:

Identify the target audience: Although this would have been done in the market segmentation process, a more detailed picture of the target audience would be required for specific promotions.

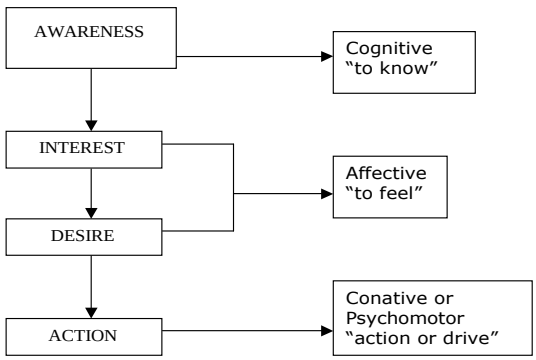
Example: A high-priced hospital would have chosen the upper income group through segmentation. But now for promotion it would require to address people who are interested in the treatment of, say, cancer or heart diseases or plain cosmetic surgery. Its message, promotions and media choices would be decided accordingly, i.e., tailor-made for this select audience.

Determine the promotion objectives: Every communication has an objective and the success of the communication programme depends on how the marketer has been able to clearly perceive his objectives and integrate the components. The service marketer has three promotional goals: to inform, to persuade and to remind. Some of the objectives for a service marketer are:

- Reinforce positioning
- Develop brand image
- Make customers aware of the offer, its attributes and benefits
- Persuade customers to buy the offer
- Continually remind customers about the service through remembrance exercises.

Develop the message: There are many models for describing the customer responses. One of the simplest and widely used is the AIDA model, developed by E. K. Strong and is illustrated below:

Figure 13.1: "AIDA" Model of Hierarchy of Consumer Response



Source: Adapted from E. K. Strong, The Psychology of Selling, McGraw-Hill, 1925, New York, pp. 9.

Notes

According to this model, the service consumer moves through various stages in sequence. The customer is first aware of the service brand, which will generate interest and then desire in the offer. Once the desire is present, the customer is motivated or 'driven' to purchase the service product. The whole sequence grinds to a halt even if one of the tasks is unachieved. This implies that without even basic consumer awareness, the service marketer cannot hope for any sales.

The message formulation will depend upon which of these AIDA sequence tasks is to be achieved.

Example: If a health clinic wants to make its target segment aware of the store then the message will be information-oriented. If a hotel chain wants to increase its bookings during a slack season like the monsoon, it might advertise for special discounted offers, hoping for a rush for occupancies.

Message development is guided by the encoding process, which involves the consideration of four issues:

- Message content - what to say;
- Message structure - how to say it logically;
- Message style - creating a strong presence; and
- Message source – Who should develop it.

The service communication has four choices in encoding: words, symbols, pictures and images.

Select the communication mix or the promotion blend: The communication could have either personal interaction (one-to-one) or impersonal messages (one-way).

Personal communication consists of personal selling (insurance advisors making a presentation to customers), word of mouth (publicity and public relations exercises for a restaurant or for a movie like Devdas), and interaction during service delivery (like inside a retail bank). Impersonal communication consists of mass communications like advertising in newspapers, TV, outdoor advertising, point of sale, leaflets and brochures, and the service environment or the Servicescapes itself.

Select the media vehicle: The media vehicle is selected by the effectiveness and efficiency with which it reaches the message to the target audience. The message also guides the media vehicle: if the message is personal, then mass media cannot be used. What becomes effective is letters (on paper or through e-mail), personal interaction, etc. This is where media analysis would be required for its audience profile and viewer reading or media habits.

Set up systems for feedback and feed forward: The communicator should undertake two important exercises to make his present and future messages effective:

- Feed forward is a kind of pre-test undertaken before the message has been broadcast to ensure that the message will be received.
- Feedback is a kind of post-test undertaken after the message has been broadcast to ensure that the message was received.

The issues of promotion blend like whether to use public relations more than advertising etc. have to be clarified by the service marketer. The decision is guided by the following factors for their differential impact ability on the communication mixes:

- The service is for profit or not-for-profit.
- Constraints of ethics exist in some services, like hospitals, healthcare and with doctors.
- Competitive intensity is high or low.

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- The geographic spread is large or small.
- The custom within a specific service sector dictates promotional practice.
- Managers are sophisticated or not.

Self Assessment

Fill in the blanks:

1. The first step in designing an IMC programme is to …….
2. The service marketer has three promotional goals: to inform, to persuade and …….
3. AIDA stands for Attention, Interest, Desire and …….
4. ……. is a kind of pre-test undertaken before the message has been broadcast to ensure that the message will be received.

13.2 Guidelines for Services Communication

There are six guidelines for services advertising which apply to a wide range of services:

Provide tangible clues: To overcome the intangibility of services, which is more performance and experience than goods, tangible elements within the product surround (total product concept) can be used to provide tangible clues.

Make the service comprehensible: Again due to their intangibility, services resemble concept products and it becomes difficult for the customer to understand the offer and its benefits. Thus, tangible attributes of the service can be made use of to help in understanding the offer.

Example: ICICI Bank (briefly) used the umbrella symbol as part of its "Safety Bonds" offer, to communicate the offer effectively.

Communications continuity: The service marketer uses logos, signage, symbolisms, packaging and advertising to present a unifying and consistent theme over time. This greatly helps in the continuity of the message and in differentiation.

Promising what is possible: Due to the intangibility of services, the customer has difficulty believing in the promise. What can reinforce his faith is consistent service delivery as promised by the service marketer.

Example: Speed Post, the Indian Postal service's courier division, could not keep its promise of reliable delivery and suffered greatly in its positioning. Mahanagar Telephone Nigam Limited (MTNL) calls itself the "lifeline of Mumbai", but suffers greatly due to its inconsistent and unreliable service. This is especially in comparison to private Wireless in Local Loop and cellular service operators. Service firms should deliver what they promise.

Capitalising on word of mouth: The intangibility and variability of services make it vulnerable to word of mouth communications and their impacts. Recommendations are an example of how word of mouth communications influence buying decisions. People seek personal recommendations for plays, lawyers, doctors, hair stylists, etc.

Direct communications to employees: The importance of internal marketing highlights how a highly motivated provider can make a difference to service quality. The enthusiasm of internal

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customers, especially if they are in a high contact service industry, will infectiously transfer itself to their customers.

Self Assessment

State whether the following statements are true or false:

5. The total product concept can be used to provide tangible cues in a service product.
6. The logo of the service brand helps in differentiation.
7. Due to the intangibility of services, the customer has no difficulty believing in the promise.
8. Internal customers also help in communicating the brand value of a service firm.

13.3 The Elements of Communication Mix

As said earlier, the communication mix consists of advertising, public relations, sales promotion, personal selling, word-of-mouth and direct marketing.

13.3.1 Advertising

The word 'advertising' is derived from the Latin word *advertere*, meaning 'to change the mood of the people'. Indeed, advertising does resemble a mood elevator. It is one of the most important communication techniques of mass or impersonal communication. But it has very specific goals, too.

Advertising goals are necessary not only to justify the advertising expenditure, but also to vindicate the art and science bases of advertising. Achievement of the goals would confirm the effectiveness of advertising as a communication tool.

Goals of Advertising

Awareness Goals

Advertising seeks to make consumers aware of the service offer, its benefits and the experience. The awareness could also be quantified and tangibly achieved by measuring it before and after the campaign. The advertiser seeks to increase the customer's knowledge about the service offer and the messages are directed at the cognitive (having the ability to recognize) part of his brain.

Advertising is used for positioning of the service offer in the minds of the consumers by effectively differentiating it from competition.

Behavioural Goals

Consumers have attitudes of favourable and unfavourable disposition towards brands and services. Advertising seeks to change the attitude of the consumers towards a favourable disposition.

Example: A Korean food retailer or restaurateur may come across negative feelings amongst people who have come to know that one of the delicacies of the Koreans is cat and dog meat. The Korean restaurateur might approach an advertising agency to try and change the attitude of the people towards him.

Notes

The advertiser seeks to change the attitude of the customer and the messages are directed at the affective (having the ability to feel) part of his brain.

Sales Goals

The advertiser might only need sales generation and can ask an advertising agency to devise a communication campaign to help generate sales. The problem with achieving this goal and claiming credit for this achievement is two-fold:

- The lagged effect that advertising has on sales. People do not go to buy the service synchronized with the advertising campaign; nor do they stop buying a service with the end of a campaign.
- Other marketing mixes like new products, distribution, pricing and packaging might contribute to sales.

Did u know? The advertiser seeks to make the consumer buy the service offer and the message is directed at the conative or psychomotor (drive for action) part of his brain.

Advertising is solely dependent on media to carry its messages. Some popularly-used media are cinema, TV, newspapers, magazines, outdoor (hoardings or billboards), brochures, pamphlets, direct mail, telephone and posters.

Selection of Media

The media can be selected taking the following four points into consideration:

Characteristics of the Medium

The advertiser should know about the following characteristics of the medium:

- Geographical coverage of the medium
- Type and quantity of audience reach
- Frequency with which it can touch the targeted audience
- Possibilities of using sound, colour and movement
- Ability to reach niche or special-target segment.

All of the above characteristics are valid if accompanied by credibility of the message communicating the offer.

Atmosphere of the Medium

'The Medium is the Massage' was the intentionally intriguing title of the seminal book by Marshal McLuhan. The medium could have its own image, which could be at variance with the image of the organisation. Then the chosen medium or vehicle cannot faithfully communicate the image of the organisation; a medium with a different image might convey a different image for the service marketer.

Example: A conservative banking organisation like ABN Amro may not want to be use a funky, youth-oriented channel like MTV. The image of the latter might be so very different from that of the former.

Notes

Coverage of the Medium

The medium to be chosen should be in a position to cover the target audience. Taking a different perspective, the medium should be in a position to explain with verifiable facts the kind of target audience it reaches and their detailed characteristics. If the service marketer finds that it suits his requirement then he can choose the medium.

Example: An advertiser would like to know the type of people who would be seeing the outdoor advertising in the form of posters or hoardings (or billboards) inside a railway station; if they are the same as his target audience, then the medium is a good choice.

Comparative Costs

The service marketer should know the comparative costs between media in reaching a specific target group, which is expressed in Rupees per thousand viewers or readers.

13.3.2 Public Relations

Public relations can be defined as:

"It is the planned and sustained effort to establish and maintain goodwill between an organisation and its 'publics'."

— British Institute of Public Relations

The 'publics' constitute all those people and organisations that have a stake in the company (the 'stakeholders'). They include shareholders, employees, governments (local or central), opinion leaders of society, the media, customers (present and potential), financial institutions, suppliers, etc.

Like most other communication programmes, public relations should also adhere to objective specifications, goal settings, deciding on the mix of PR activities and implementing them in an integrated way while evaluating results.

Public Relations vs. Advertising

A comparison between these two effective elements of the communication mix would be useful for the service marketer in determining their respective utility.

- Advertising is wholly dependent on the media to reach its target audience; PR does use the media but can also communicate without the latter (e.g., a dinner for opinion leaders).
- Advertising is a paid form of communication through the media; PR has no media cost - but incurs substantial PR costs like salaries of PR personnel, costs of hosting dinners or press conferences, etc.
- Advertising has total control on the content and exposure of its message; PR does not. As the media accepts payment for advertising, it has to print every part of the message and has to display it in the place and at the time desired; if the message has to be repeated ad nauseam, so will it be. The same is not the case with press releases arranged by PR. If a major story breaks, the press release could be relegated to the back pages or shelved for some other day when the message value might have lost its topical value.
- Advertising seeks to change opinions by changing awareness; PR seeks to change attitudes by changing opinions.

Notes

- Advertising seeks to change or enhance brand or company identity; PR's main job is to change or enhance brand or company image.
- In advertising, the audience is able to identify the advertiser through the message, making him perceive the message to be a lot of self-praise and thus doubt its credibility. In PR, the audience cannot trace back the identity of the communicator from the message; there is thus an element of neutrality in PR.

Tasks of PR

- Maintaining or enhancing image;
- Supporting other communication activities like advertising, personal selling, direct mail, etc.
- Influencing publics;
- Reinforcing positioning;
- Spearheading certain events like Annual General Body Meetings (AGM), press conferences, etc.
- Bringing out annual reports, magazines and house journals;
- Troubleshooting.

Tools of an Effective PR Design

- Publications in the form of press releases, house journals, posters, articles, annual reports, brochures, etc.
- Holding events like AGM, press conferences, seminars, conferences, conventions and congresses, etc.
- Investor relations programmes;
- Planting of stories to enhance media coverage;
- Conduct of trade shows, exhibitions;
- Sponsoring of social events, charities and community projects.

13.3.3 Sales Promotion

Sales promotions are incentives tools used to temporarily boost sales. They are targeted at three types of audiences:

Customers: When the service marketer is keen on improving on the flat sales graph, he can make the consumer interested in his offer by various schemes that have a short tenure. These are called consumer promotions and the 'pull' factor consists of:

- ***Price-offs***: The same offer, for example, of a health club or fitness centre's service, is now available at a lower price.
- ***Extra grammage***: There is more amount of offer by weight and volume at the old price. This is possible in those services having higher tangibility as in restaurants, souvenir shops, general and food retailing, etc.
- ***Freebies***: These are free items bundled with the offer sale. They can be intra-brand.

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Example: McDonald's offering another burger free with the purchase of one or inter-brand Pizza Hut offering Mattel toys free with their offer.

Pure service freebies also exist: Kotak Bank offering free insurance with their home loans.

- ***Coupons***: These can be exchanged for services or goods either free or at a discount. Coupons are also used to measure the effectiveness of advertising campaigns for sales goals.
- ***Samples***: These are used to boost trials, especially in the introductory stages. These again might seem to be impossible in services.

Example: One can't imagine Alitalia offering a free chukker for potential customers. But it is possible for Internet service providers to offer a month of free trial, for housing companies to have sample flats/apartments ready, etc.

- ***Cash refunds***: This is used for loyalty programmes.
- ***Prizes***: This is in the form of lucky draws from purchases made. Retailers routinely use this promotion.
- ***Demonstrations***: This is used to introduce the customer to a new service (like ATM), make him knowledgeable about certain features and functions, etc.
- ***Contests***: These are directed at the participative nature of customers and are used to increase the involvement of the customers.

Caselet **Exciting Promotion at Pizza Hut**

Pizza Hut has a sense of occasion, of being there at the right time. Be it a heart-shaped pizza on Valentine's Day or a special promotion during the Cricket World Cup, Pizza Hut is on the ball - with eye catching promotions. In the summer of 2000 in New Delhi, Pizza Hut launched its innovative Pizza Pooch menu as well as a Birthday Party package exclusively for kids in the 6 - 10 years age group. Senior marketing manager, Tricon Restaurants International said, "There is a specific reason to cater to this segment. Though, at this age children are under their parents' guidance, they perceive themselves to be teenagers and have the ability to choose or demand a particular brand of their own choice."

The $ 20 billion Tricon Restaurants that owns Pizza Hut, Taco Bell and Kentucky Fried Chicken (KFC) has nearly 29,000 outlets globally. The largest number of Pizza Hut outlets is in Paris, followed by Moscow and Hong Kong. Pizza Hut started operations in India nearly seven years ago with just a single outlet. It has realised the cultural differences in India and importance of religion in the consumption pattern of certain sub-cultures. Today it has spread in several cities and it also has a 100 per cent vegetarian restaurant in Ahmedabad.

Innovative promotional activities and a popular logo have helped Pizza Hut expanding. The senior marketing manager said, "Our focus is not just on offering a great pizza but also on providing excitement and good customer service." The manager further emphasised on the customer focused operations and intensive research done to find customer needs and satisfaction. Besides, Pizza Hut conducted in-house research on psychographics of

Contd...

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Indian consumer that led to the use of cartoon characters in campaigns. The Indian Market Research Bureau (IMRB) also carries out regular surprise checks at different outlets to monitor the quality of service. Moreover, a regular test, CHAMPS (Cleanliness, Hospitality, and Accuracy of order, Maintenance, Product quality and Speed of service) is conducted in-house.

The company says that its Pizza Pooch birthday package is full of fun and excitement. What is unique in the package is the nominal price of ₹ 125 per child that offers much more than only goodies in the main menu. The birthday party includes a well-decorated area within the Pizza Hut outlet with several gifts for the children. Moreover, the party is conducted by a trained host with lots of games, prizes and a special gift for the birthday child. Pizza Hut, better known as a family restaurant, takes the onus of relieving parents of the cumbersome job of cleaning up the mess after the kiddies have enjoyed themselves thoroughly.

The Pizza Pooch menu, on the other hand, includes a wholesome delicious meal and a gift for the child. The menu has been intricately designed with pictorial games. A free set of crayons is provided to keep the children occupied while their parents dine. The campaigns created by HTA are eye-catching with cartoon characters on the mailers, hoardings and print advertisements where the cartoon characters are aimed at matching varying moods of kids. The birthday party concept is not entirely original - local fast food major Nirula's has been doing it for years as does KFC.

(***Source:*** A&M, August 2000)

Intermediaries: Middlemen like retailers, dealers and stockists are the beneficiaries of 'push' factors, which are in the form of:

- Margins
- Credits
- Discounts
- Free goods
- Shelf-space display incentives
- Advertising and other promotion allowances
- Co-operative advertising (the service firm and the retailer sharing the expenses of print advertisement or the exhibition)
- Distribution of awards.

Internal customers (sales force): Mostly sales-force of the service firm is the beneficiaries of the 'push' factor, which consists of:

- Bonuses
- Contests
- Awards and prizes

Concentration on boosting, albeit temporarily, sales, does make this promotion at variance with marketing goals and other communication mixes. It is therefore very necessary for the marketer to be systematic in his sales promotion programme. The following is a guideline to develop a promotion programme:

- Decide on the sales promotion objectives and the co-ordinates vis-à-vis other communication mixes.

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- Balance the sales promotion amongst customers, internal customers and intermediaries.
- Decide on the sales promotion tools to be used.
- Determine the amount of incentives.
- Establish conditions of involvement.
- Decide on the tenure of the promotions.
- Select the distribution method of promotion.
- Make a promotion timetable.
- Decide on the promotion budget.
- Pre-test the promotion for its effectiveness.
- Launch the sales programme.
- Evaluate the promotion programme.

Task Consider any firm in the hospitality sector and collect their 5 ads and make a list of sales promotional activities undertaken by the firm recently.

13.3.4 Personal Selling

The high contact nature of services and the resultant interactions between service providers and customers make personal selling very effective and important as a communication tool. It is an effective tool of persuasion in those areas where the customer has difficulty in comprehending the service product (concept selling) and its benefits.

Personal contacts are used to create customers and then to build long-term relationships and for customer retention. It is possible to personalize the communication according to the customer. This may not be possible in mass communication. After a sales call has been closed, personal selling can be used to sell other services.

Example: Some of the service sectors that have been greatly benefited by personal selling are insurance, financial products from banks like credit cards, tour packages, medical services, etc.

Personal selling can be made effective in the following seven ways:

1. ***Orchestration of the service purchase encounter:*** The service encounter is managed to create the maximum positive impression on the mind of the customer. This can be done in the following ways:
   - Identify the needs and expectations of the customer: The insurance advisor should make a customer-need analysis and then present his insurance products. Too often, the advisor/agent insists on hard-selling certain policies for which he might get a higher commission and for which the policy-holder might realize too late that he has not much use. It is no surprise that insurance agents are perceived very low in the social ladder.
   - Usage of appropriate technical and presentation skills: The customer should be left with full comprehension of the offer and a lasting impression of offer benefits.

Notes

- Management of impressions: Visual, aural, touch-and-feel factors and activities can be used effectively to leave lasting impressions.

Example: Housing companies have small models of their past, present and future projects strewn across their office.

Servicescapes management is used effectively to create good impressions.

Example: Soft music was introduced by moribund public sector banks in an attempt to imitate the atmospherics of foreign banks.

- Inducing the customer to participate positively. Many service firms have inducted the customers into their processes.

Example: Executive buffet lunch providers and shopping centres with self-service are enduring examples.

2. Facilitation of quality assessment by the customer: Customers measure quality by their expectations and their perception of service delivery. The service provider should accordingly change his standard of measurement of service quality.

3. ***Making the service tangible:*** This can be done in the following ways:

   - *Evaluative criteria:* The service marketer (say, for example, a business school) can help buyers determine what they are looking for (academic excellence, good faculty, placement efforts, extra-curricular activities, industry interfaces, projects and training etc.)

   - *Comparative analysis:* The buyer can be assisted on comparing the offer with other services - direct, indirect or substitutes. The Internet has been most helpful for the buyers. The latter are now in a position to compare features, benefits, add-ons, etc. very quickly.

   - *Differential advantages:* Buyers can be made aware of the unique value effect of the service offer.

4. ***Emphasis on the image of the organisation:*** More often than not, the customer equates the image of the sales personnel with that of the firm. The service marketer should find out the images of the generic service, firm and the sales representative held by the buyer and communicate the relevant images to him.

5. ***Use of references from external sources:*** The service marketer should use satisfied customers as sources of referral and a positive word-of-mouth publicity campaign. This will increase the neutrality of the message.

6. ***Recognition of importance of customer-contact personnel:*** If different service providers are meeting a customer in each of his encounters, the service firm loses an opportunity to know him very well. This superficial knowledge will make the providers insensitive to the customer's in-depth needs, wants and expectations. There should be minimal contact personnel interacting with a customer. The 'moments of truth' concept has to be ingrained in all service personnel.

7. ***Recognition of customer involvement during the service design process:*** The customer's feedback and other reactions are actually the starting point for new product development of a service firm. Blueprints are made airtight by eliciting responses from the customer.

Notes

Successful personal selling requires a highly trained and motivated staff that can bring in revenues for the service firm.

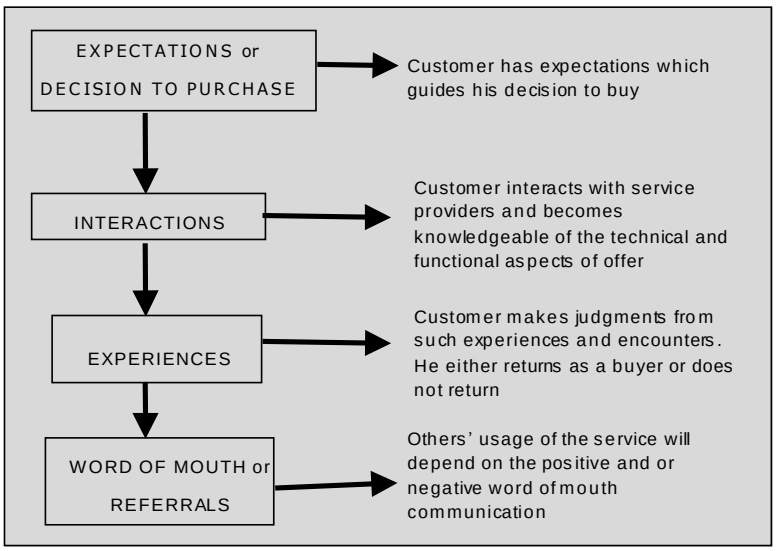
13.3.5 Word of Mouth

The service industry is very vulnerable to referral and word-of-mouth promotion and communication - due to its intangibility factor.

Example: A satisfied customer will refer the services of a doctor to others while a dissatisfied diner will be negative about a restaurant and irate customers might resort to de-marketing of the particular offer, often unprompted.

There is a lot of research that bears out the effectiveness of personal recommendation through word of mouth. Services therefore benefit from the multiplier effect of positive recommendations - although negative experiences tend to be more damaging.

Figure 13.2: Expectations or Decision to Purchase



13.3.6 Direct Marketing

This is being increasingly adopted by service firms for their communication mix. The advantages over mass marketing are many:

- ***Personalisation:*** Unlike communication for mass marketing, here personalisation of the message, method or technique of communication is possible. This would make the communication objective effective. The personalisation can be in the language used, levels of vocabulary and articulation, depth of conceptual understanding and extent of persuasion and media.
- ***Cost-effective:*** It becomes prohibitively expensive for a small and medium service-marketer to use mass media for communication. Even if used, it may not suit his purpose in reaching his target audience, especially if they are a niche segment. Direct marketing enables the service marketer to be cost effective, that is, reaching his desired target audience with his limited resources.

Notes

- ***Instant feedback:*** A major disadvantage of mass marketing is its inability to channel the feedbacks from customers for effective utilisation. Sincere feedbacks can be used by the service marketer in new product development as well as in the fine-tuning of service blueprints. This is possible in direct marketing where, in the service-and-selling encounter, the reactions of the customers are observed by the alert and sensitive direct marketer.

The service marketer is in direct contact with the customer - which can be personalized. Personal selling to different customers in an individual capacity, face-to-face is also known as micromarketing. Some of the popular direct marketing tools are:

- ***Direct Mail or Database Marketing:*** Here a database of customers - present and potential - is the major asset of the service marketer, increasing his market penetration. The marketer can either gather the database himself or acquire it from others.

Example: American Express can and does take the database of the subscribers of India Today to mail-market its credit cards.

An issue of ethics rears its head here popularizing the new jargon, 'permission marketing'.

- Mail order or catalogue
- Direct selling
- Direct response
- Telemarketing
- Internet marketing

Self Assessment

Match the following sets:

Set A

9. Advertising
10. Public relations
11. Sales promotion
12. Personal Selling
13. Direct Marketing

Set B

(a) It is a paid form of mass communication

(b) It is a short term incentive to boost sales

(c) It includes mail order or catalogue marketing

(d) It involves personal confrontation, cultivation and immediate response

(e) It is done to maintain the goodwill of the company

13.4 Designing Servicescapes

The place where the service delivery and encounter takes place is like a shop floor or a factory. The service is 'produced' and consumed - both in the same place and the same time. The

Notes

Servicescapes encourages the customer to be deeply involved with the service production system, lingering longer if it is a retail store.

The quality of a Servicescapes also influences the internal customers' output. The monotony and drudgery of a call centre job, coupled with the lack of direct interaction with a customer who for all practical purposes is from an alien culture, is capable of de-motivating the employees.

Did u know? The attrition rate in India is as high as 60-70% (NASSCOM).

Call centres or Business Process Outsourcing (BPO) organisations are taking extra care to improve on their Servicescapes, making the ambience, office, furnishings all conducive to good working conditions. They are going beyond ergonomics (the science of comfort) to human relationships, teamwork, career growth and design and enrichment of the job.

The inherent intangibility of services makes physical evidence an important tool for cannibalisation. The following are the ways in which the physical evidence can be used by service marketers as marketing mix variables, to achieve his strategic goals.

Facility Design

The arena of service delivery, also known as the Servicescapes, is one of the most visible physical evidence that a service marketer has at his disposal. The customer gets an enduring impression of the service organisation by the facilities and design of the office or the place of the service encounter.

Example: Foyer and lobbies of the world's great 5-star hotels are designed to awe visitors, and create a favourable impression of grandeur, cleanliness and efficiency.

The facility design would include buildings, office premises, design, layout and décor of the office, air-conditioning, furnishings, etc. Call centres, hospitals and consultants are paying a lot of attention to facility design.

Equipment

Equipment and its usage convey an impression of modernity and efficiency.

There was a clear difference between the public sector banks and the new private banks in the late nineties. The latter had currency- note-counting machines, computers, ATMs, net-banking facilities, etc. ATMs also enable the banks to deliver services 24 hours, and therefore are visible to the general public at any hour of day or night. Other service providers who use equipment to great communicative effect are dentists (remote-control operated patient-inspection reclining chair), hair dressers and beauty salons, consultants (lap-tops, LCD projectors), retailers (bar code scanners), etc.

Example: Domino's Pizza has effectively used its home delivery concept to be different by using their trademark scooters and carriages for delivery, increasing their visibility.

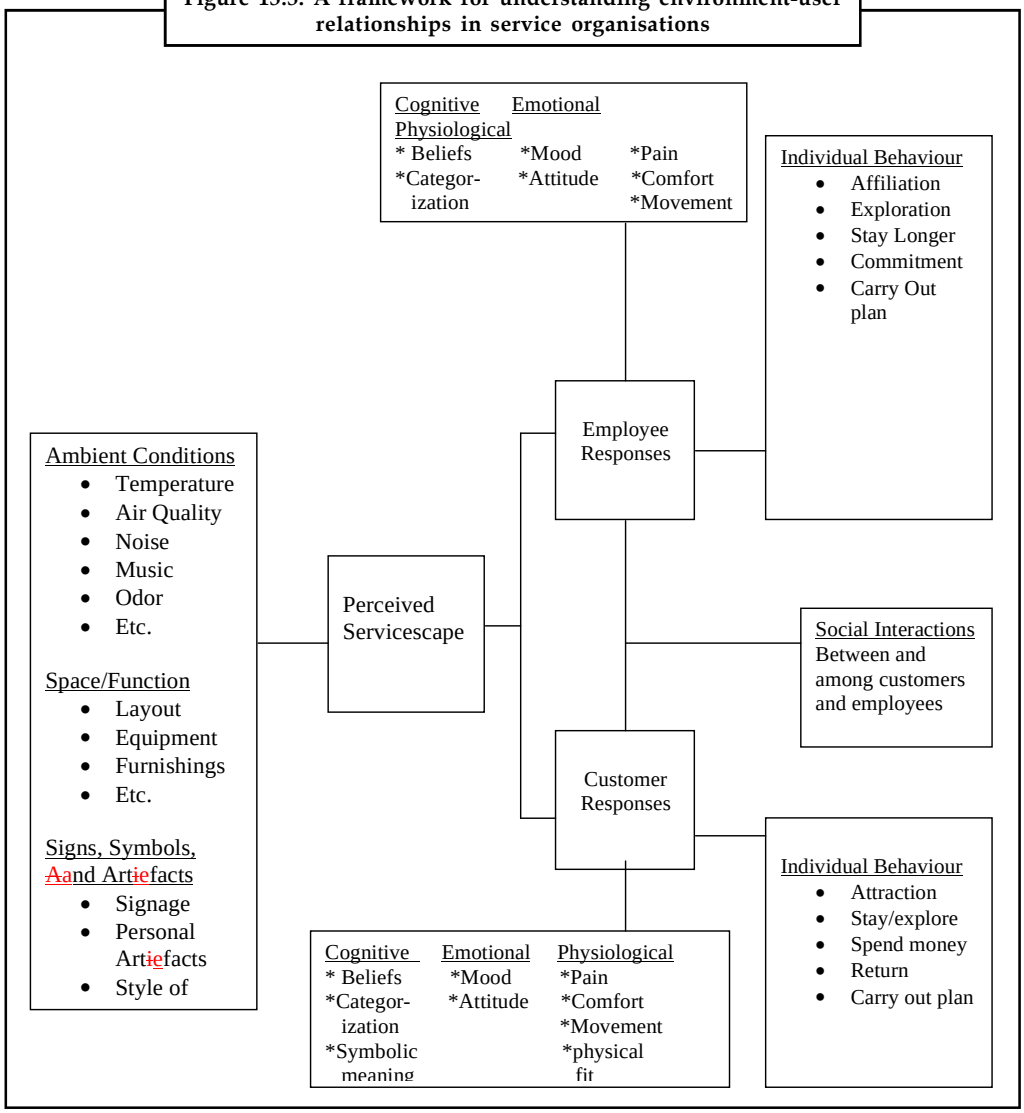
Signage

Signages are continuous communicative media. Whether in the form of glow signs, posters or luminous hoardings (or billboards, as known in the US), there is uninterrupted communication and a powerful reminder to the constituents about the presence of the service organisation.

Notes

Signages will contain the firm's name, logo, mascot, corporate colour and slogans. Neon signs continue with the communication having glow, brightness and movement, attracting the attention of people.

Figure 13.3: A framework for understanding environment-user relationships in service organisations



Employee Dress

Uniforms are another tool at the disposal of the service marketer to communicate about his presence and existence. The army and the police have effectively used their uniforms to set themselves apart.

Reports

Findings documented on paper increase the tangibility of the service. Service marketers expend a lot of effort on the get-up of the reports that are received by the customer.

Notes

Example: Performance reports like annual reports, project reports by consultants or even medical reports.

Statements

Slogans, vision and mission statements make a service firm distinctive and successfully convey its philosophy. They have the same properties as a jingle, and help people to become involved with the service brand.

Task Consider logos of some Indian airline companies and try to find out the history behind the logo.

Business Cards

A business card serves multiple purposes. It conveys a strong impression to the customer of the service firm of which the provider is a part, by its design, print, paper texture, etc. When recycling became politically correct, customers made an evaluation of the service firm based on the quality of paper. Business cards become a ready reckoner for the customer as a database and are a form of remembrance advertising.

Case Study

Kingfisher Airlines: A New Entrant Seeks to Manage the Firm's Physical Evidence

How does one differentiate one's service in a highly cluttered, "me-too", competitive market? Especially in a service sector undertaking like an airline, which was notorious for its intangibility, swift imitation, and difficulty in evaluation by both customers and service providers? How does one communicate the value proposition to an audience becoming increasingly cynical, demanding, and price-conscious? How does one discover an entirely new segment? These thoughts were uppermost in the mind of Vijay Mallya, the flamboyant liquor baron, as he took the audacious decision to extend his beer brand Kingfisher to airlines.

The Indian aviation market had been hotting up in the last two years. For quite long, it had been the epitome of all the sad aspects of Indian service: lack of professionalism, bad service, and minimal choice for the customer and poor value to boot. With deregulation in mild dosages since the last decade, the Indian domestic consumer has begun to feel the comfort of better service delivery and experience. Jet Airways set the standard, while Air Sahara provided the heat of competition. The battlefield had been strewn with a lot of carcasses: Damania Airlines, East West Airlines, NEPC Airlines, ModiLuft, Vayudoot, etc.

Vijay Mallya set up a task force to prepare a feasibility report, and the business analysis included market analysis and financial analysis. Mallya's careful research revealed the first of the gaps: safety. Domestic airlines were notorious for their slipshod operations and astounding lack of passenger safety. Mallya decided to highlight this aspect in his offer and communication. His aircraft acquisition was very well thought out; he went in for three brand new A320 Airbus aircrafts bristling with ultra-modern avionics and fly-

Contd...

Notes

by-wire facilities; his past competitors had sought the easier options of wet and dry leases, mostly from the Russians and East Bloc countries. He boldly painted the Kingfisher insignia on the entire length of the aircraft in an in-your-face style. The blood-red lettering and the bird couldn't be missed in the entire airport tarmac.

The interior décor and upholstery was distinctive. There were LCD entertainment screens behind every passenger seat. The distinctive Kingfisher signature tune and music was frequently played during the flight. While most airlines mimed the safety procedures through their stewards; Kingfisher Airlines additionally beamed it through the LCD screens, with seductive model Yana Gupta playing the perfect airhostess. Before the flight took off, a canned message from Vijay Mallya was delivered in a very personal manner from a surreal heavenly, up-above-the-clouds setting. If there was any criticism that Mallya was aping maverick billionaire Richard Branson of Virgin Group, there are an equal number of dissenters who insisted that his new look-alike hairstyle and peppery beard was probably just a coincidence. While the market leader Jet Airways had male stewards, Kingfisher Airlines made no bones about its all-female "hand-picked" (so announced Vijay Mallya in his in-flight magazine) airhostesses in blood red, tight-fitting, thigh-length, distinctive designer uniforms, with epaulettes on their blouses. There was a take-away gift for all passengers: a red mobile-handset pouch, with pens, toffees, and red coloured headphones. The cuisine was far better than the competitors and the cutlery was in heavy metal reminiscent of a bygone era of ease and luxury travel, instead of the usual plastics. The ground crew and the marketing team wore jeans and red T-shirts and caps. The distinctive red was everywhere. The Ferrari team in the F1 pits must have owed at the high-speed overtake.

Mallya, the flamboyant personality that he was, went on to add his very own distinctive touch to his airline with a vengeance and no sign of an apology. There was great focus and effort in faithfully translating the fun-loving image of the Kingfisher beer brand on to the new airline - to create the right 'splash' literally! Their research revealed that airline travellers were of two types: the business and the leisure passenger. They sought to create an entirely new segment by communicating their brand new positioning statement: Kingfisher Airline was for those business travellers who desired to travel in leisure. To that end, Kingfisher Airlines had only one class - the Business Class. He was following the irony of modern marketing: the more intangible your offer was the more tangible should be your proposition.

Whatever Mallya's critics might have lots to say, one thing that they all did concede was that the airline *did* get noticed, instantly and how. He went to town with some of his achievements:

- "Service Excellence For A New Airline" Awards for Airline Excellence, 2006 by SKYTRAX - the leading independent quality evaluation agency for the world air transport industry
- "New Airline of the Year Award" in the Asia-Pacific and Middle East Region
- Kingfisher Airlines voted the third most successful brand launch of 2005 by 94% of the respondents in the Brand Derby annual poll conducted by Business Standard (Source: Brand Derby, BS, January 17, 2005)

The market was getting crowded again: Jeh Wadia's Go Air, Captain Gopinath's Air Deccan, Spice Jet (all no frill airlines)...Jet Airways was going international and growing horizontally by seeking to acquire the airline business of the ubiquitous brand Sahara….

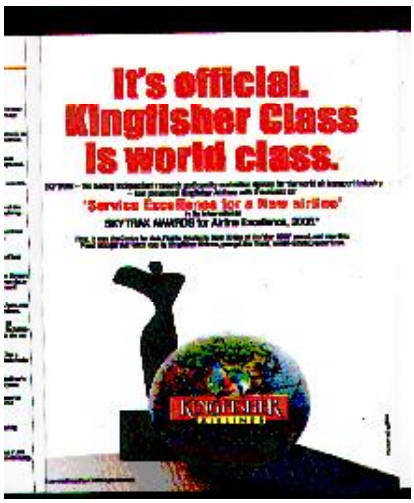
Contd...

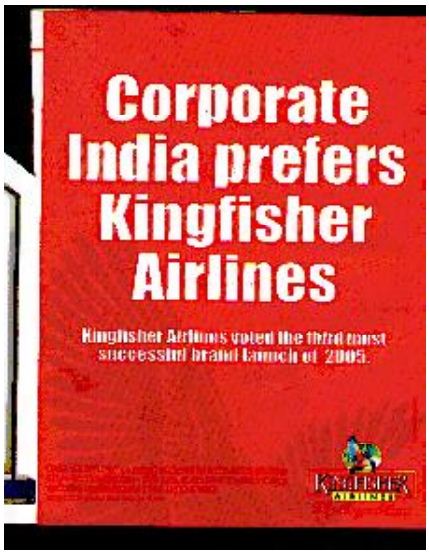
Notes

Question

The intangibility of services challenges marketers to make the offer believable, differentiable, and measurable. Evaluate Vijay Mallya's attempt to give physical evidence of his intangible Kingfisher Airlines. Are there any other methods that he could have attempted? Explain.

Exhibits 1 and 2





Self Assessment

Fill in the blanks:

14. The inherent intangibility of services makes ..... an important tool for tangibilisation.

15. The ..... of a service firm would include buildings, office premises, design, layout and décor of the office, etc.

16. Signages are ..... communicative media.

Notes

17. A symbol of a company that becomes synonymous with the company's existence is its …….

13.5 Summary

- Service marketers have used promotions to great advantage in positioning their service, adding tangibility and value to their offer. Promotion is used only as a temporary tool and is communication oriented.
- To develop an integrated communications program, the marketer has to first take care of all these things: Identify the target audience, determine the promotion objectives, develop the message, select the communication mix or the promotion blend, select the media vehicle, and set up systems for feedback and feed forward.
- Advertising goals are necessary not only to justify the advertising expenditure, but also to vindicate the art and science bases of advertising. Achievement of the goals would confirm the effectiveness of advertising as a communication tool.
- Public Relations are the planned and sustained efforts to establish and maintain goodwill between an organisation and its 'publics'.
- Sales promotions are incentives tools used to temporarily boost sales. They are targeted at the customers, the intermediaries and the internal customers. Discounts, cash backs, coupons, freebies, contests, bonuses, credit are some of the sales promotional tools.
- The service marketer should use satisfied customers as sources of referral and a positive word-of-mouth publicity campaign. This will increase the neutrality of the message.
- There is a lot of research that bears out the effectiveness of personal recommendation through word of mouth. Services therefore benefit from the multiplier effect of positive recommendations - although negative experiences tend to be more damaging.
- The Servicescapes encourages the customer to be deeply involved with the service production system, lingering longer if it is a retail store. The quality of a Servicescapes also influences the internal customers' output.
- The inherent intangibility of services makes physical evidence an important tool for tangibilisation. Facility design, office equipments, signage, employee dress, reports, business cards and statements make physical evidence for a service firm.

13.6 Keywords

Advertising: paid form of non-personal communication

AIDA: attention, interest, desire, action

Facility Design: buildings, furniture, layout, décor, etc.

Freebies: free items bundled with the offer sale

Logo: name, symbol, or trademark designed for easy and definite recognition

Personal Selling: involves personal confrontation of customers and salesmen

Public Relations: effort to establish and maintain goodwill of a firm

***Servicescapes*:** tangible cues attached with a service

***Signage*:** continuous communication media; glow signs, billboards, etc.

Notes

13.7 Review Questions

1. Suppose you are the marketing head of a health and cosmetic clinic. How would you design your communications program effectively?
2. As a marketer of an airline firm, how would you effectively advertise your services?
3. "Advertising attempts to change the mood of the people". How? Give examples
4. Is the marketer right in keeping sales as an advertising goal? Which of its objectives is more relevant than others?
5. Suppose you are the marketing manager of an international banking firm which has just started its operations in India. How would you choose appropriate media to target your customers?
6. Compare and contrast advertising and public relations.
7. " Sales promotions are only short term incentives to boost sales" Discuss
8. "Personal Selling is an effective tool of persuasion in those areas where the customer has difficulty in comprehending the service product". Comment
9. Why there is an increase in use of direct marketing by the marketers? In which sectors direct marketing can be effectively used and how?
10. "The place where the service delivery and encounter takes place is like a shop floor or a factory." Comment
11. Suppose you are the marketing head of a chain of restaurants. Your restaurant is able to generate enough curiosity among people due to lack of visibility and low level of tangible cues. How would you correct this?
12. How does a logo or a mission/vision statement convey brand philosophy? Give examples to support your answer.

Answers: Self Assessment

1.	Identifying target audience	2.	To remind
3.	Action	4.	Feed forward
5.	True	6.	True
7.	False	8.	True
9.	9a	10.	10e
11.	11b	12.	12d
13.	13c	14.	Physical evidence
15.	Facility design	16.	Continuous
17.	Logo		

13.8 Further Readings

Notes

Books

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US

Valarie A Zeithmal and Mary JO Bitner, *Services Marketing: Integrating Customer Focus across the Firm*, Tata McGraw Hill, New Delhi

Online links

www.marketingteacher.com/Lessons/lesson_promotion

www.knowthis.com/.../promotion.../types-of-promotion-objectives

www.b2bfreezone.com/product.../promotion-objectives

www.publicrelations.com

www.wisegeek.com/what-is-direct-marketing

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Unit 14: Service Strategies

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Objectives

After studying this unit, you will be able to:

- Discuss the competitive marketing strategy of service firms
- Know some service recovery strategies
- Realise how service firms manage demand, supply and productivity
- Know how waiting lines can be managed

Notes

Introduction

The service firm has some major issues which are to be tackled by the management and the marketers. Due to the intangibility of services it is very difficult to make a competitive strategy for the services. Different people attach different attributes to a service and evaluate the service differently. Due to the variability factor, the services can't be standardised which makes it even more difficult to decide on one strategy. A service marketer should always keep in mind the requirements of the customers while deciding on any single strategy because the requirements of every single customer vary.

It is also very important and difficult to manage the demand and supply constraints. Demand is a variable which depends on a variety of factors and service firm has this challenge of matching its capacity to demand. They sometimes also try to influence the demand variable to match their own capacity. With low capacity and high demand also comes, the problem of waiting lines. This is one area where the service firm loses most of its customers. Customers hate to wait in lines. Now with the availability of many options and substitutes, customers have become more impatient. Managing waiting lines is also a big challenge for the service firms.

In this unit, you will learn the competitive service strategies, recovery strategies, how demand, supply, productivity and waiting lines are managed.

14.1 Competitive Marketing Strategy

A service firm with multiple goods and service offers needs to make separate strategic plans for each business proposition and each market in which it competes.

Example: HDFC the home finance will have different strategic plans when compared to the retail banking strategies of HDFC that has now merged with its parent company, HDFC Bank or its insurance ventures HDFC Standard Life and HDFC Chubb.

Then there would be requirement of strategic plans for different functions like marketing, human resource, finance etc. Thus HDFC Group (which includes home finance, retail bank, life and general insurance) or the ICICI Group (which includes the universal bank with all its different divisions of institutional, retail, home and consumer finance, etc., life and general insurance, informational technology, etc.) can have strategic plans at three levels:

1. ***Corporate level strategic planning:*** The service organization has a clutch of SBUs, and the planning affects the fortunes of all of them. The focus is to integrate the strategies of the individual SBUs to conform to the group's goals.

Example: Ratan Tata and his board of directors at Tata Sons makes the decision that the Tata Group would focus on infrastructure, steel, automobiles, telecommunication, information technology, hospitality, tea and chemicals. The decision to exit from FMCG (TOMCO, Lakme), liquor and office products (Forbes, Forbes & Campbell) etc., were made at this level.

2. ***Business-unit level strategic planning:*** Decisions that affect an individual SBU as a whole are taken at this level. Thus, the decision for Taj Hotels, if ever so taken, to grow by acquisition and not just by organic means will be taken at this level.

3. ***Functional-level strategic planning:*** This will affect the different functions of an SBU.

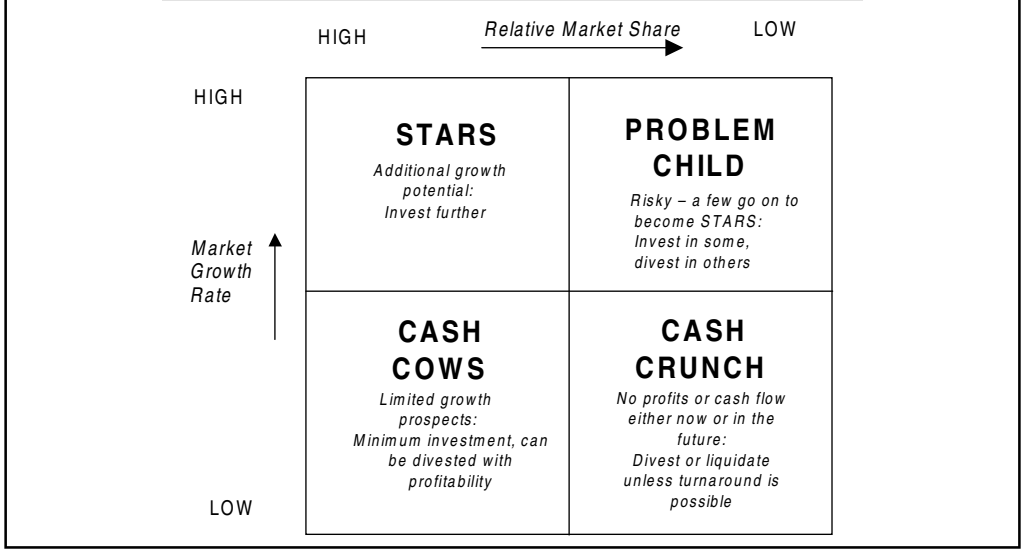
There are some models which are often used for making marketing strategy. We will discuss them one by one in subsequent subsections.

Notes

14.1.1 Boston Consulting Group Matrix

This matrix was developed by the management consulting firm Boston Consulting Group (BCG) almost thirty five years back. A service firm uses this grid to categorize its SBUs or its products as Stars, Cash Cows, Problem Children (or Question Marks) and Cash Crunch (or Dogs). The parameters of classification are market share relative to its competitors and the growth rate of the industry of the respective SBUs.

Figure 14.1: The Boston Consulting Group Growth/Share Matrix



- Stars are those SBUs (or service products) which are in a high growth rate industry (like for example, BPOs) and whose relative market share is also high (like Delhi based IBM-Daksh). They would require a lot of support from the service firm in terms of resources to remain competitive and gain market share.
- Cash Cows are SBUs (or service products) that are in low growth or mature industries but have relatively high market shares. This could be due to their early presence in the market. Whenever any industry has a decline, stars transform into cash cows, are able to retain their customers and their loyalty, and effectively have very low marketing costs. Thus cash cows rarely invite additional investment and are only "milked".
- Problem Child (also called question marks) is those SBUs which have doubtful future. The manager can neither predict a rosy future for them nor a definite death. The SBUs have low relative market share but the industry in which they are is doing very well and has high growth rate. It seems that while their competitors are doing well, they themselves are not doing so well overall. It speaks of their non-competitiveness presently. The management has a choice in its decision: it can give more support by way of resources and hope for a revival of its fortunes or withdraw support and kill the SBU, cutting losses while it can. The danger lies in the fact that at a future date, both the decisions could be proved wrong: the first could make the firm suffer opportunity costs, while the second, opportunity lost.
- Cash Crunch (also called Dogs) is the category applicable to those SBUs who are neither doing well themselves vis-à-vis their competitors (reflected in very low market shares), nor is their industry growing (reflected in very low growth rate).

Notes

Example: The south based NEPC group of Khemkas had started an airline with the same name. The SBU started functioning in the mid 90s, when the travel boom was a 'forever' promise that ended with a whimper. Neither was the air travel industry- especially inland traffic - growing nor was NEPC performing well. It resulted in a lot of bankruptcy and closures (Damania Airways, East West Airlines, Span Airways, etc.) including NEPC Airlines.

Uses: Service firms can use the BCG matrix to build and develop market share for their SBUs. It is mostly used to allocate and reallocate limited resources to the different SBUs at the corporate level strategic planning. The service firm should go in for a balanced portfolio of SBUs (or products) and it is imperative to include stars and problem children as a part of its portfolio-mix, exclude cash crunch (by divesting) and harvest Cash cows.

Limitations: BCG matrix is a useful strategic tool but is overtly simple and the limitation is due to the dependence on just two factors to determine whether an SBU deserves allocation of resources or not. Secondly, it was developed in US and is useful for service firms functioning in a mature, market-oriented environment. It may not be so suitable for mixed economies like those of the newly liberalized East Bloc countries, and others, including India, Sweden, etc. The Hungarian economist, Magdolna Csath has modified the BCG matrix by using two different parameters: environmental opportunities and a service firm's competitive strength instead of industry growth rate and market share respectively. The model is recommended for assessing a service firm's present as well as desired SBUs or product portfolio.

14.1.2 General Electric Business Screen

This model is also used for allocating limited resources amongst a service firm's SBUs or service products, and then developing marketing and corporate level strategies for them. General Electric developed the business screen with the help of consulting firm McKinsey & Co. which builds on the limitations and drawbacks of the BCG matrix.

The business screen uses two factors – market attractiveness and business position/SBU strength – to classify SBUs or products in its portfolio. Both the factors seem to be subjective but have various criteria which help the SBUs/products get rated:

Market Attractiveness

- Market size
- Market growth rate
- Market entry barriers
- Competition – number and type of competitors
- Technological requirements
- Profit margins, etc.

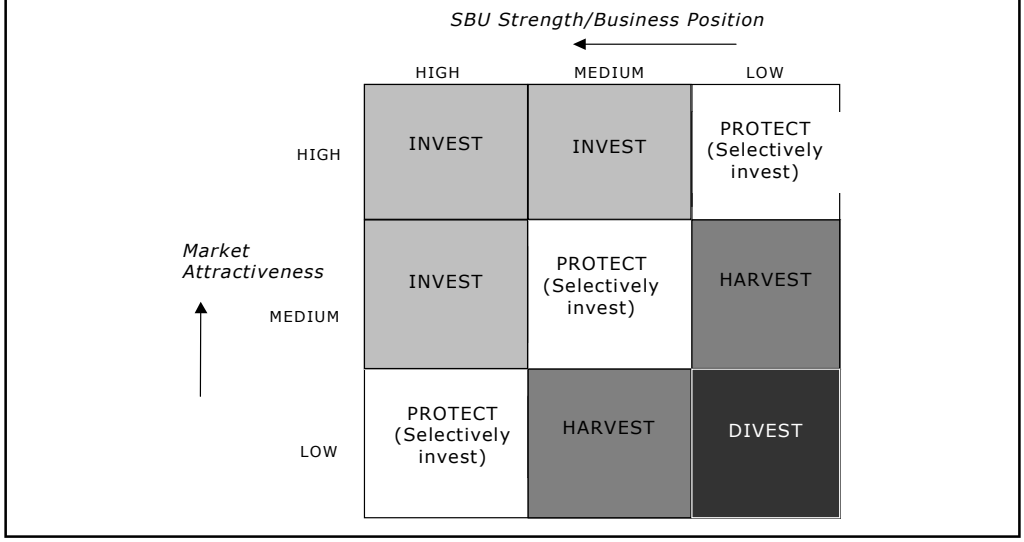
SBU Strength/Business Position

- SBU size
- Market share
- Research and development capabilities
- Power or strength of differential advantage(s)

Notes

- Cost controls
- Production capabilities and capacities
- Management expertise and depth, etc.

Figure 14.2: General Electric Business Screen



The ratings of the SBUs are arrived at quite systematically:

- Criteria are assigned weights
- Each SBU/product is rated with respect to all criteria
- Overall ratings are calculated for all SBUs/products
- Each SBU/product is then rated as high, medium or low according to market attractiveness and then business position/SBU strength.
- Different service firms in actuality have different criteria, which can be incorporated in their analytical process.

After the ratings, the SBUs or the products are plotted on a 3 × 3 grid. The location on the GE business screen will indicate to the service marketer the evaluation of the SBU or the product and accordingly resources can be allocated. Given below are the location and the appropriate strategy:

Upper left cells and Invest strategy: Any SBU in this cell is in the most advantageous position of having high market attractiveness in terms of market opportunity and high business strengths, capability etc., and who are likely to seize market opportunities. These SBUs or products should receive resource support from the service firm to strengthen and build them.

Three cells running diagonally from lower left to the upper right of the screen represent a Protect strategy: The SBUs and products in these cells generate cash for the service firm which can be channelled to other SBUs/products. Therefore, it is essential to follow a defensive strategy of protecting a cash generator. These SBUs should also be duly supported with selective investments.

Two cells just below the diagonal cells represent the Harvest strategy: SBUs or products in these two cells are not very strong in their competencies and neither do they possess attractive markets, forcing decision makers to deny those additional resources, while electing to maximize returns with the present allocation. If there is an opportunity for a profitable sell off, it should be seized with both hands.

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Lower right cell and the Divest strategy: SBUs or products in this cell are poor performers, having no attractive market nor possessing enough resistance to enable a turnaround. They are to be disposed of from the portfolio of the service organization.

Normally, service firms do not get hemmed in by any one strategy, usually choosing to follow a combination of them as far as resource allocation is concerned.

Did u know? The House of Tatas bolstered and reinforced their information technology SBUs with resources and marketing supports and also successfully participated in the disinvestments of CMC and VSNL (Invest). They have selectively invested in steel, infrastructure, telecommunication and automobiles (Protect). Lakme and TOMCO have been profitably sold to FMCG major Hindustan Lever Limited (Harvest), while Tata Textiles has been liquidated (Divest). The resources generated from the sell offs through Harvest and Divest have been utilized in acquiring companies like VSNL and CMC and investing in new areas of retailing through Tata Retail Enterprise (TRENT)/Westside.

14.1.3 Michael Porter's Strategies for Competitive Advantage

For strategies at the SBU level, Michael Porter urges service firms to first assess scope of target market and differential advantage(s) and then choose the appropriate strategies. He has propounded three approaches to give a service firm a decisive "competitive advantage": cost leadership, differentiation and focus. *Cost Leadership* is a competitive strategy where a service firm seeks to be a low cost producer, satisfying a broad market base with a standard service product. This it does so by aggressively pursuing operating efficiencies and then under-pricing the competition. Porter recommends efficient facilities, systems and processes, tight cost and overhead controls, minimization of costs in R&D, advertising, sales and distribution, service etc.

Example: Wal-Mart has made a virtue of being a low cost retailer, aggressively seeking operating efficiencies in logistics, supply chain and driving down the prices of its merchandise that were sourced from its vendors. The low costs enable the giant US retailer to get a competitive advantage by offering lower prices, driving the competition out of business and posting handsome profits derived from volume business.

Differentiation strategy for a service firm involves developing offerings which are perceived as unique by all the six markets in the industry. The creation of a distinctive image of the firm's service products requires meticulous planning, usage of high quality processes, innovative designs, or leveraging on unique product attributes and features. This uniqueness would make the service firm to charge a premium price and target a broad or a very narrow market.

Example: Dilip Chhabria, CEO and chairman of DC cars, the supplier of innovative and uniquely designed cars (on existing platforms), can charge a premium on designs and execution service. The construction and housing firms of Hiranandanis, and architect Hafeez Contractor demand (and get) a premium for their homes and designs which boast of high and consistent quality (the former are amongst some of the few construction firms who as a policy do not have 'sample flats' to convince customers). Nordstrom's is always associated with high quality service while Bose Corporation is famous for its high fidelity and high technology audio systems.

Focus strategy is adopted by a service firm or the SBU when it concentrates its entire attention on a very specific customer segment and their needs. The service firm then services this segment with uniquely designed offers. The target segment can be specific by:

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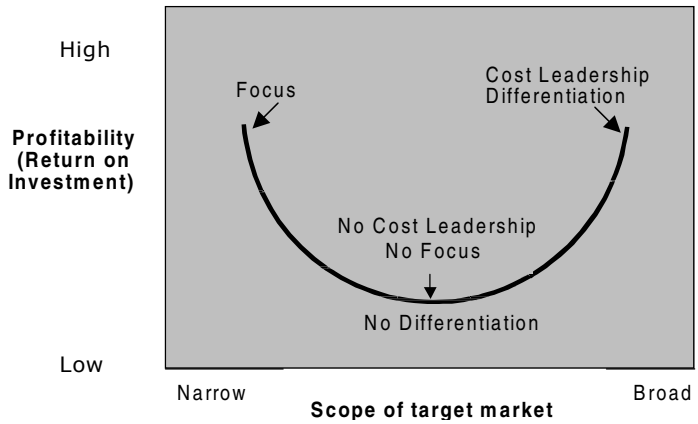
- geographical location (FM radio services, newspaper services, Bank of Madura which was predominantly in South India before being merged with ICICI Bank, etc.),
- specialized needs of the customers (a not-for-profit service organization managing an old age home, Monginis franchising system to cater to life-style foods like cakes, pastries, patties, croissants etc., prosthesis and medical aids like Jaipur Foot marketing company, ICICI starting a subsidiary only for shipping needs through SCICI which got swallowed in the reverse merger, RBI hiving off its Agricultural and Rural Development Cell, ARDC, into a full-fledged institution National Bank for Agriculture and Rural Development, NABARD),
- A segment can be a customer group by age (teenagers), mother and child market (Johnson & Johnson), outdoor and sporty types (Countryside, the adventure sports company).

Focus strategy helps a service firm to concentrate on satisfying the needs of its target customers better. They can use either the Differentiation or Cost Leadership strategies or both, within the overall Focus strategy. Pressman is into financial services advertising while Mudra Institute of Communications, Ahmedabad (MICA) is a B-school for advertising industry. SOTC, before being taken over by Swiss travel management company Kuoni was only into outbound tour packages. The reasons ranged from better predictable and manageable infrastructures abroad to better understanding of the Indian customers and their preferences. They were therefore able to uniquely position themselves with their "Ghar ka khana" ('Food like at home') promotions.

Figure 14.3: Porter's Competitive Advantage Strategies Model



Caution BCG Matrix, GE Business Screen and Michael Porter's Model is used for Corporate and SBU level planning as well as for marketing strategies.

Case Study

Challenges to Iconic Brands – Case of Starbucks

It is a widely accepted notion that world is indeed flat. Economic boundaries are being demolished. Companies are no longer constrained to their national markets. Internet has become a great leveller of field between companies and customers. Price has yet again taken central stage. And brands are under increasing threats from private labels.

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Given such a connected world, how can companies maintain their underlying brand identity in face of worldwide external shocks such as the current global recession? Should brands practice consistency or continually adapt?

Before answering those questions, take a look at one of the world's iconic brands – Starbucks. Starbucks is almost single handedly responsible for creating the concept of a third place between home and work where people can relax, enjoy a cup of coffee and experience the inviting ambience.

Since its founding days in the early 90s, Starbucks has strived to build its brand identity on offering customers a relaxing and enjoyable experience. In addition, Starbucks has also built its brand on things that tend to be out of the box, by consistently defying the conventional wisdom.

When companies were aggressively advertising, Starbucks decided not to advertise. When cost cutting was the dominant paradigm of the industry, Starbucks chose to emphasize non-routine procedures to create excitement among the baristas instead of streamlining procedures to minimize cost. Unlike most other companies, Starbucks made its employees its partners, by offering them stock options and health insurance.

As against rigorous customer surveys Starbucks chose casual and informal chats with customers to gather their overall mood. All these clever strategies have enabled Starbucks to build one of the most iconic brands that has continued to resonate with customers across the world for more than fifteen years. That was until the economic conditions started worsening.

Since early 2008, Starbucks has been forced to bite the dust and succumb to the aftermaths of the recession. Founder Howard Schultz returned as the CEO. Cost cutting and efficiency was made the guiding strategy. More than 800 Starbucks stores were closed in the US alone. For the first time Starbucks invested more than US$200 million in advertising. And for the first time in its history, Starbucks started price campaigns in select stores to lure customers away from other price competitors such as McDonald's and Dunkin Donuts.

These events beg the obvious question. Given such fundamental changes in the macro environment, should iconic brands like Starbucks stay true to their strategic brand vision or continually adapt to regain competitive advantage?

Regaining lost glory and recapturing global brand leadership should be a two-pronged strategy. Iconic brands should strategically manage the dual process of continuous innovation on the one hand and reinforce their guiding strategic brand vision.

Innovation Drives Strong Brands

Innovation is a fundamental building block of iconic brands. Leading brands create their corporate strategies with an inherent strategic element encompassing innovation. Such innovation is not limited to bringing new products to markets, but is expanded to innovation in communication (with customers and other stakeholders) and innovation in implementing cost-cutting and efficiency enhancing strategies. Such continuous innovation serves dual purposes.

First, innovation enables iconic brands to refine and redefine their cores in line with the changing needs. Second, innovation allows iconic brands to continually adapt to the changing needs of customers, thereby protecting its competitive advantage.

Innovation should be practiced along with an organization wide brand vision, which acts as the strategic blueprint of the brand's path. Such strategic vision should not only delineate the boundaries of the brand but also should chart out the possible strategies of the brand

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in order to attain and maintain brand leadership. Commitment to such brand vision allows companies in tough situations to chart out different strategies (such as either cost cutting or enhancing value proposition) but will ensure that the brand does not deviate from its strategic charter. As innovation prepares the brand to adapt to changing circumstances, brand vision can guide the brand not to stray away from the core brand promises and dilute the core brand identity.

Iconic brands can effectively regain their brand leadership by implementing this dual strategy. Starbucks has already begun on this path. It is innovating in reaching its customers and enhancing efficiency but maintaining consistency in its core brand promise of providing an enjoyable experience.

The changing global economic environment has challenged many global iconic brands. This dual pronged strategy can not only help these brand protect their brand leadership but can also create a sustainable path to ensuring long term competitive advantage.

Question

How did Starbucks use innovation to handle growing competition?

14.1.4 The Ansoff Grid

One other growth model that is useful for marketing strategies of a service firm is the Product-Market Growth Matrix proposed by Professor Igor Ansoff.

Figure 14.4: Igor Ansoff's Product/Offer-Market Matrix

	OLD OFFERS	*NEW OFFERS*
OLD MARKETS/ OLD CUSTOMERS	**MARKET PENETRATION STRATEGY** *Convince its customers to consume more of its present offers*	**PRODUCT DEVELOPMENT STRATEGY** *Give newer bouquet of offers, satisfying different needs for its present customers*
NEW MARKETS/ NEW CUSTOMERS	**MARKET DEVELOPMENT STRATEGY** *Service firm continues with its old offers but now to different customers*	**DIVERSIFICATION STRATEGY** *The service firm targets entirely new customers with different offers*

Growth becomes an objective for the service firms as it will garner revenues, make it competitive and strong - and get profits. Growth can be achieved only with greater understanding of the service firm's markets and its offers - and deliberately and methodically utilizing them as growth drivers. This is the very basis of the Ansoff Model which outlines four growth options for the service firm.

Thus the Ansoff model takes into account a service firm's offers and its customers. It splits the offers into those which are at present a part of the bouquet of the service firm and those which are absolutely new; similarly it categorizes the service firm's customers as those who are at present patronizing its services and those who are the newly targeted. Ansoff could elaborate on four different strategies to be followed by the service firm to grow. They are:

Market Penetration Strategy: Here the service firm concentrates on growing by trying to convince its present cache of customers into consuming more of its services - by increasing their appetite.

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Example: A cell phone operator will try to segment its market by usage - heavy users, moderate users and light users of its cell phone service. It will then try to convince all of them, especially the medium and light users to talk more and use other services like SMS, games, downloading of ring tones and more.

Similarly, when ICICI Bank mines the data base of its Infrastructure 'Safety' Bonds customers and asks its marketing personnel to convince them to use its credit cards, if they haven't done so yet, or any other products like home and personal loans, then it becomes a classic case of market penetration strategy. If the universal bank devises some promotion schemes which would increase the customer's loyalty by buying maximum offers (like general insurance, bonds, credit cards, retail bank services, e-services, personal and home loans, etc.) from it, like a one-stop shop, then it is pursuing market penetration strategy to grow. It is targeting its present customers with its full bouquet of offers, including new offers.

Market Development Strategy: This strategy is adopted by a service firm when it perceives that its old market is drying up, that its old customers are having a change in their preferences. The service firm, being convinced that the offers have potential, and then continues to offer its old bouquet of service products but now to an entirely new set of customers. Service product repositioning will also come under this marketing strategy. The newly targeted customers will perceive these offers to be new (which is actually the correct definition for new products) and therefore the marketing promotions and communication will consist of components of persuasion, education and awareness.

Example: Holiday destination managers like Goa beach tourism marketers and Maharashtra Tourism Development Corporation looked at the Indian domestic tourist market for its 32 beach resorts after the inflow of foreign tourists slowed down to a trickle after 9/11.

What happens if the service marketer finds its present market stagnating (not growing) and therefore looks to newer markets, alongside its old ones? This is called a market development strategy. SBI began introducing special service branches for its high net worth customers in addition to servicing its old customers. Construction and housing major Hiranadanis of Mumbai have got into retailing (Haiko, The Loft), game parks ('Hakone'), and education (ICSE schools) and are offering these services to customers of its homes. Business schools trying to attract industries for executive development programmes (Executive MBA) is another example of market development strategy.

Product Development Strategy: The service firm develops new offers/products for its old/present customers. Having successfully created customers (an expensive proposition), come to know them and their preferences well and garnered their trust; the company then tries to satisfy their additional needs for services by offering it themselves. From the customer's perspective, the trust and familiarity is already made, quality of the service transaction for the previous service has already been experienced and the encounter has been positively judged (most important for services, due to the inherent intangibility of the service offer). The loyalty of the old customers makes them try out their new service offers while for the service marketer; it is a good growth option at lower costs.

Example: SBI gets into life insurance and bancassurance, credit cards, home and personal loans, etc., targeted to the old customers. A pharmaceutical company like Wockhardt might offer medicines for cardiac and kidney cases and now it has opened a heart hospital in Mulund, Mumbai and Bangalore, a kidney hospital in Kolkata, etc. Kotak Mahindra, the non-banking finance group has stepped into insurance (OM Kotak) and retail bank, to offer new services for its old clients.

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Diversification Strategy: This is one of the riskiest strategies that a service firm can adopt. This is due to the fact that the firm neither can bank on its tried and tested offers nor on its market standing. It really is stepping into unknown territories. Diversification strategy is mostly adopted when the service firm feels that its growth hunger is not going to be satisfied in the present industry or service product and by tracking the present customers, and when it has plenty of surplus funds.

Example: Mahindra group, which are into manufacturing of automobiles, venturing into the realty business through the 'white knight' acquisition of GESCO, and further into Mahindra holiday resorts and time share service business are all examples of diversification strategy. All the above growth models are used by service firms to allocate and reallocate resources for its SBUs and its different offers/service products. They have been criticized for being overtly simple but have also been praised for their utility.

14.1.5 Marketing Strategy at Functional Level

Strategy for a marketer would imply a plan of action that is the prerogative of top marketing management, is usually long term and comprehensive in concept, and affects the whole organization and the firm's whole market. It consists of the following activities:

- Conduct a situation analysis
- Develop marketing objectives
- Select target markets, after appropriate segmentation and measure market demand
- Determine positioning and differential advantage(s)
- Design strategic marketing mix(es)

Situation analysis consists of the following sequential steps:

1. Analyze and evaluate the past marketing plans and forecast the probable future impact on them. This will serve as a guiding tool for revision of the plans and save the firm from 'reinventing the wheel' and avoid such traps as 'change for change's sake'. But appropriate introspection could make firms abandon many 'holy cows' concepts and go for fresh and innovative change of plans.
2. Evaluate the External as well as Internal Environment factors of the service firm. The external environment includes political, economic, socio-cultural, legal and technological factors. The internal environmental factors include such marketing resources as quality of personnel (their skills and experience), consumers and customers of the firm, R&D capability including the power of information management (knowledge management), financial health (including access to funds), etc.
3. Analyze the market opportunity available for the service firm. It is a prerequisite for the service marketer to make an opportunity analysis before venturing into a market. The firm could be offering a new service product or expanding its existing business into a new area or market.

   Market opportunity for a service firm has two important implications:

   - There is a gap between demand and supply
   - The existing market is not satisfactorily served by existing players.

   Market opportunity identification involves the analysis of the following:

   - Size of the market - present and potential

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- Marketing strategies of the competition and the depth of their value benefits. This can be illustrated thus:

$$\frac{\text{Benefit that a customer derives from the consumption of the offer}}{\text{Price that he pays for it}}$$

- Marketing programmes required to successfully penetrate the desired market
- Identifying the key success factors in the service industry and aligning them with the service firm's strengths and weaknesses.

4. Analyze the previous marketing strategies used to target the customer groups and the key indicators of performances or the Key Result Areas (KRAs). Peter F. Drucker identified eight KRAs:
   - Market Share
   - Innovation
   - Productivity
   - Physical and Financial Resources
   - Profitability
   - Manager Performance and Development
   - Employee Performance and Attitude
   - Social Responsibility
5. Perform a SWOT assessment by identifying and evaluating the service firm 's areas of strengths to leverage on, overcome or dilute its weaknesses, seize the opportunities and avoid threats or find ways and means to meet challenges. Strengths and weaknesses are internal component of a service organization's process, pointing at its capabilities and competencies.

Example: 13,500 branches of State Bank of India could be its strength, an indication of its nationwide reach. This is one of the reasons for GE to go for a tie up with SBI for its card business. Its large size could also be considered as strength. But its militant employees and the accompanying poor customer service could be a weakness. Opportunities and threats/challenges are external components for the functioning of the service firm and always originate from outside it. Thus, for SBI, opening up of the insurance sector and bancassurance as a product offer could be opportunities. Life Insurance Corporation of India, from the public sector and other private insurance players like ICICI and HDFC would constitute threats and challenges.

Task Perform a SWOT analysis for LIC of India and FedEx.

Outlining Marketing Objectives is the next step for Functional Level Strategic Planning - for marketing. Marketing strategies should be in synchronization with SBU goals and the SBU strategy willy-nilly translates into marketing strategy for the service firm.

Example: If Thomas Cook (SBI owns over 15% of its equity) decides to increase its profitability by 15% (SBU goal), the strategy could be to reduce costs by 12% - including inside the marketing department. Ergo, it becomes Thomas Cook's marketing goals and objectives.

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The marketing strategy could be to shift sales accent from its employees to Direct Sales Agents (DSAs) or Travel Agencies. In effect, the strategy for marketing would be to stress more on outsourcing of sales, and shift from salaries to commissions.

The marketing objectives should be prioritized by urgency and importance. Each objective then should be assessed for its impact on the respective marketing area and the service firm's competitiveness. It is only after this exercise that resources should be allocated to each plan and objective.

Self Assessment

Multiple Choice Questions:

1. Which of the following decisions is most likely to be taken at the corporate level?
   (i) Marketing strategy to launch a product
   (ii) Hire new front line employees
   (iii) Designing the mission and vision of the service organisation
   (iv) Testing the service delivery process
2. …… are SBUs that are in low growth or mature industries but have relatively high market shares.
   (i) Stars
   (ii) Cash cows
   (iii) Questions marks
   (iv) Dogs
3. In …… strategy, the products or SBUs are disposed off from the portfolio of the service organisation if they are not performing well.
   (i) Invest
   (ii) Protect
   (iii) Harvest
   (iv) Divest
4. …… strategy is adopted by a service firm or the SBU when it concentrates its entire attention on a very specific customer segment and their needs.
   (i) Cost leadership
   (ii) Differentiation
   (iii) Focus
   (iv) Invest

14.2 Service Recovery Strategies

As per Tax and Brown, "Service recovery is a process that identifies service failures, effectively resolves customer problems, classifies their root cause, and yields data that can be integrated with other measures of performance to assess and improve the service system".

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By adopting a service recovery system, service organizations get another opportunity or a second chance to correct any mistake that occurred during the delivery of service in the first instance. If the problem is resolved and the customer is satisfied, he may give up his attempts to switch to competitors. If the company continues to provide high quality service, it might - succeed in earning a loyal customer. This loyal customer could tell his friends and relatives how the organization attended to his concerns and solved his problems. This will help develop a positive image about the company among prospective customers and serve as word-of-mouth publicity for the business. While developing an effective developing a service recovery system, the following guidelines should be kept in mind:

14.2.1 Track and Anticipate Recovery Strategies

Service firms should attempt to know if any customer of theirs is dissatisfied with their service or any other aspect of the firm. Periodic customer surveys and regular customer interaction can help the organization identify any failures on their part. There may be some customers who are dissatisfied with poor quality service but do not complain to the firm or voice their problems openly. Such customers may reduce their business interactions with the organization and may eventually discontinue utilizing the services of the organization. Organizations can track such customers with the help of technology and attempt to communicate with them.

Example: A private marketing company which regularly utilizes the services of a particular hotel for the business travel of its employees starts to utilize the services of another hotel, at the behest of its employees. If the first hotel had a proper database management system, it would have been able to notice that the business from a corporate account had been declining and can take the necessary steps to revive the account.

Companies should encourage their customers to complain to them in case they face any problem in the quality or delivery of service. The complaint submitting process should be simple and swift and should be widely publicized so as to increase the awareness of customers.

The management should continuously analyze the complexities involved in the service process, and identify the areas where there is a possibility of failure or delay. This proactive approach can help the management prevent some of the customer related problems. It should develop effective mechanisms to deal with any problems that may still arise, and. solve them immediately to the customer's satisfaction.

14.2.2 Solve Problems in Quick Time

One of the main reasons for customers shying away from conveying their problems to the company is that they feel that it will be of no use. They might have formed this opinion based on past experience or on hearing it from friends. Some customers, however, communicate their grievances to the company, expecting a prompt corrective action. When the company fails to meet the customer's expectations and fails to sort out the issue, he loses confidence in the company and its services.

The management should recognize that the customers who complain have given a second opportunity to the organization to correct its mistake. If it fails to deliver even after being given a second chance, the customers will, perhaps, be lost forever. The management should motivate its employees to utilize the opportunity to correct their mistake and offer superior quality. They should be made to realize that they can convert dissatisfied customers into satisfied and loyal customers again by exceeding their service expectations. The complaints lodged by customers should be attended to immediately and the problems resolved to their satisfaction. The employees of the company should be made to understand the implications of bad service both in terms of

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losing an existing customer as well as bad publicity for the company by the dissatisfied customer. The longer the company takes to resolve a customer complaint, the greater will be the damage. Moreover, the slow recovery process reduces the chances of retaining a customer dissatisfied with its service.

14.2.3 Adequate Training to Front Line Employees

Organizations should educate employees about the need to serve customers to their satisfaction. They should be trained adequately to offer error-free services consistently. And they should also be trained to deal with" those precarious situations when their efforts to offer quality service to customers fail.

Employees should be in a position to notice any problems or mistakes that occur in the service process as soon as possible, bring that to the notice of concerned person, and initiate the service recovery process. If the customers blame them for delays or flaws in service, they should not take it personally and get miffed, but should politely accept their responsibility for the inconvenience caused. They should assure the customers that the mistake will be rectified and any losses incurred by them will be compensated.

Self Assessment

State whether the following statements are true or false:

5. Service recovery strategies aim at dealing with difficult customers.
6. Service firms should attempt to know if any customer is dissatisfied with their service or any other aspect of the firm.
7. Companies should encourage their customers to complain to them in case they face any problem in the quality or delivery of service.
8. The customers who complain actually give a second opportunity to the organisation to correct its mistake.

14.3 Managing Demand, Supply and Productivity

The first step towards managing demand in services is to understand and sketch a pattern of demand variation. It is also important to understand the reason for greater demand in some market segments when compared to others at particular time.

An organization has to track and sketch the demand level for its services at specific time periods. If an organization maintains a customer database and a record of varying demand levels over a period of time, this can be done with ease and accuracy. 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.

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.

There are some services for which demand patterns can be easily predicted, while patterns for some other services can be understood only after drawing the demand levels on a chart.

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Demand Patterns

After capturing the data on demand levels in the form of charts, an organization should and observe the charts for predictable demand patterns.

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.

Example: The crowd at theme parks, movie halls, and restaurants would be large during the weekends or holidays. The crowd in movie halls can also vary according the time of shows. The evening shows usually attract more crowds.

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.

Example: Some discotheques lower the price of entry during weekdays to attract people during those days.

Some of the demand patterns show predictable cycles, whereas, others are random or adhoc in nature. However, causes associated with these demand patterns can be identified most of the times.

Example: The impact of changes in weather conditions on entertainment and recreational services may not be predictable. Similarly, random demand patterns for services like healthcare and insurance have no specific pattern or style except that the demand is highly visible when there is an epidemic spread or calamity.

Capacity of a service firm is similar to the supply by firm manufacturing products.

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:

- ***Time:*** The main constraint for expanding the capacity or increasing supply in some service businesses is the availability of time with the service provider. The income of professionals like lawyers, doctors, consultants, etc., depends on their ability to use their time in a productive manner.
- ***Labour:*** Large service firm hire employees to offer services to the customers. They face capacity constraints in the form of availability or unavailability of labour during service demand. There might be situation where the firm has excess demand and it doesn't have equipped labour to carry the process. Or it may not be feasible for the service firm to hire additional workers in a competitive market which exhibits low demand during the off season.

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- ***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.

Example: A dentist may not be able to provide appropriate services to a patient because unavailability of modern machines

- ***Facilities:*** Some service organizations face capacity constraints due to limited facilities available with them.

Example: A restaurant may not be able to accommodate extra people due to unavailability of tables or an airline might to able to provide tickets to passengers because of unavailability of vacant seats.

14.3.1 Altering Demand to Match Capacity (Supply)

A service firm should make efforts to understand the demand patterns and its capacity constraints to effectively formulate strategies that can match demand and capacity. To match its demand and capacity, there are two options for an organization. It can either opt to shift the demand to meet the capacity or to increase or decrease the capacity to match the demand fluctuations.

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.

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.

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.

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:

A Variation in the Original Service Offer

Here, an organization adopting this method, changes its service offering to suit the seasonal, weekly, or daily demand fluctuations.

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.

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Communicating with Customers

A service firm must inform the customers about the peak rush hours that 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.

Example: Bankers are usually very busy during first few days of the month and on Mondays because banks reopen after a day's leave, so they can inform the customers about this, some of them may prefer to carry out their transactions with the bank later in the month and on other days than Monday.

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.

Example: On Sundays, usually there is heavy rush at salons, therefore, they can start their operations a bit early and close late on Sundays.

Difference in Prices

Some service organizations may choose to vary their prices with the intention of shifting demand from high-demand periods to low-demand periods.

Example: Theatre owners often reduce the rates of morning shows to attract crowds in that show or fast food joints reduce the rates during noon.

However, this call for cautious approach by companies as the customers might expect the same prices during their next interaction with the service company. Also, there is the danger of the service firm ending up attracting other segments instead of their target market segment.

14.3.2 Altering Capacity to Meet Demand

Some of the strategies are:

Employ Part -time or Contract Workers

Organizations focus on recruiting part time or contract workers instead of full-time employees in order to meet the changes in demand.

Example: Retail outlets employ more floor executives during the high demand season like festival season and consultants hire additional staff during the financial year-ending when there is a peak demand for their services.

Outsource

This is a very popular method employed by today's organizations to handle demand variations. When firms feel that hiring additional workers to meet a temporary increase in demand is too expensive, they employ the services of other firms that specialize in performing the required

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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, organizations outsource their recruitment activities to HR consultants.

Share Facilities or Rent Equipment

Another approach that can be adopted by organizations is to share their facilities to meet the variations in demand.

Example: A school can be rented out to conduct coaching classes to FIITJEE or IMS on 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.

Example: A small time caterer might rent large cooking utensils instead of purchasing them if he gets a big contract for a short period.

Schedule Downtime during Periods of Low Demand

Organizations 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.

Example: A restaurant can conduct its maintenance work when it is empty at noon so that the restaurant looks good when customers come in.

Cross-Training Employees

This involves training employees to perform other tasks apart from their routine tasks, so that underutilization of labour does not take place in the organization. These multi-skilled employees can be shifted to tasks that are in high demand.

Example: In a salon, employees who are specialised in manicure can be given training on pedicure so that they can also service those clients in case of heavy demand of pedicure.

Modify Facilities or Move Equipment

Facilities can be modified innovatively during peak or slack demand periods.

Example: During summer holidays in schools, swimming pools 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.

Example: Mobile bill payment option allows a customer to pay the bills through mobile without having to go to the designated place.

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Task Contact some of the service providers in your locality (salons, restaurants, coaching classes, cable network providers, etc.) and find out what they do to manage demand and supply.

Managing productivity is a difficult task due to the multifunctional nature of service jobs.

Example: In fast food outlets, the personnel perform various tasks like preparing food, delivering the food to customers; giving them all possible facilities to make the visit memorable and enjoyable and accepting payment form the customers.

Stock management and cleaning and maintenance work may also be a part of the work of personnel in some service firms. The multifunctional nature of the tasks allotted to service personnel makes it difficult to measure, monitor and improve the performance. So it is a complex task.

Self Assessment

Fill in the blanks:

9. …… can be defined as the ability of a service organization to meet its demand and the extent to which it can do it.
10. A courier service may not be able to deliver couriers to a specific location due to lack of distribution service. This is a constraint related to ……
11. A bank's branch cannot handle two credit card customers at a time because they have only one employee handling that division. This is a constraint related to ……
12. If an educational institute employ visiting/part time faculties from outside to take classes, they are altering …… to match ……

14.4 Managing Waiting Lines

The queuing system consists primarily of the waiting line(s) and the available number of servers. Factors to consider with waiting lines include the line length, number of lines, and queue discipline.

Length: In a practical sense, an infinite line is simply one that is very long in terms of the capacity of the service system.

Example: Infinite potential length is a line of vehicles backed up for miles at a bridge crossing and customers who must form a line around the block as they wait to purchase tickets at a theatre.

Gas stations, loading docks, and parking lots have limited line capacity caused by legal restrictions or physical space characteristics. This complicates the waiting line problem not only in service system utilization and waiting line computations but also in the shape of the actual arrival distribution. The arrival denied entry into the line because of lack of space may rejoin the population for a later try or may seek service elsewhere. Either action makes an obvious difference in the finite population case.

Number of Lines: The term multiple lines refer to the single lines that form in front of two or more servers or to single lines that converge at some central redistribution point. The

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disadvantage of multiple lines in a busy facility is that arrivals often shift lines if several previous services have been of short duration or if those customers currently in other lines appear to require a short service time.

Queue discipline A queue discipline is a priority rule or set of rules for determining the order of service to customers in a waiting line. The rules selected can have a dramatic effect on the system's overall performance. The number of customers in line, the average waiting time, the range of variability in waiting time, and the efficiency of the service facility are just a few of the factors affected by the choice of priority rules.

The following are some useful ways to manage waiting lines:

Determine an acceptable waiting time for your customers.

Determine a standard acceptable time for which your customers are willing to wait to avail the service. Set operational objectives based on what is acceptable to the customer.

Example: In a fast food restaurant, the personnel know that the customer will wait for some time before moving out.

Try to divert your customer's attention when waiting.

This can be an effective way of dealing with the issue of waiting line. The service firms these days provide music, a video, magazines, play area for kids etc. that may help to distract the customers from the fact they are waiting. Customers get involved in these things and don't complain much about the time they spent waiting.

Inform your customers of what to expect

This is especially important when the waiting time will be longer than normal. Tell them why the waiting time is longer than normal and what you are doing to alleviate the queue.

Example: A pizza delivery boy can inform the customer that he is getting late because of the bad weather. This will at least give the customer a thought that the service firm is concerned about him.

Keep employees not serving the customers out of sight?

Nothing is more frustrating to someone waiting in line than to see employees, who potentially could be serving those in line, working on other activities. If the employees are carrying out any maintenance task or any back office task, he should be kept away from the waiting area so that customers are not able to see him.

Segment Customers

If a group of customers needs something that can be done very quickly, give them a special line so they do not have to wait for the slower customers. This has both advantages and disadvantages as the customer who are served quickly in a special line get satisfied but those waiting for long in the other line can get annoyed on seeing that.

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Train your servers to be Friendly

Greeting the customer by name, or providing some other special attention, can go a long way toward overcoming the negative feeling of a long wait. Rather than servers being told to just "be friendly," psychologists suggest they be told when to invoke specific friendly actions such as smiling—when greeting customers, when taking orders, and when giving change (in a convenience store). Tests using such specific behavioural actions have shown significant increases in perceived friendliness of the servers in the eyes of the customer.

Encourage customers to come during the slack periods

Inform customers of times when they usually would not have to wait; also tell them when the peak periods are—this may help to smooth the load.

Example: In a bank, personnel can inform the customers about the heavy load hours and request them to come during slack periods.

Take a long-term perspective toward getting rid of the queues

Develop plans for alternative ways to serve your customers. Where appropriate, develop plans for automating or speeding up the process in some manner. This is not to say you want to eliminate personal attention; some customers expect this.

Caselet

Opening a Hair Salon Business

Article by Eric Powers

For customers, using an appointment-driven service like a hair salon means waiting. While waiting is the expectation of customers, the nature of the waiting experience can make a major difference in what they think about your salon and even overshadow the services you offer.

Start your planning of waiting line management by considering how you would like to be treated when waiting. Look also at what competitors in your local market, both for ideas and for mistakes. If you have a location in a mall or shopping centre, it can be easy for customers to shop or take care of errands elsewhere while they wait their turn. The downside of this for your business is that you can lose out on further engaging your customers during that time, whether by having them look at hair style options in magazines or brochures or consider the products you have for sale. Also, you run the risk of waiting for the customer if they have wandered too far when you are finally ready for them.

Having a comfortable and even entertaining waiting room does require investment and upkeep, but it can be a valuable tool to improve the customer waiting experience. Product displays, TV screens, magazines, and other items can improve this space, as can a water dispenser or other refreshment options. If you serve children at your salon, the needs of a waiting room take on a whole new character. Parents will be extremely appreciative if you take care to provide activities and entertainment to occupy their kids as they wait, and may not mind a longer than average wait as it will by more quickly for them.

Contd...

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In any case, it is important to have your staff set clear expectations for customers as to how long their wait will be and then deliver on those expectations. Customers hate not knowing how long they will have to wait and being told one wait time and then another. They may leave feeling your staff either don't know what they are doing or are deliberately misleading them. Either possibility is very dangerous to your salon's reputation.

The service you offer to customers includes every interaction, from the setting of the appointment to all of the time the customer spends at your salon, including the wait. Your plan for the waiting experience will influence your operations plan and financial assumptions and should not be neglected as part of your salon's business plan.

Source: ezinearticles.com

Self Assessment

State whether the following statements are true or false:

13. The number of customers in waiting line often affects the quality of service delivery.
14. As a service provider, you should try to engage customers who are in queue in other things like television or magazines.
15. A service provider should never tell the customers why the waiting time is longer than normal.
16. A service provider should inform the customers about the time when the waiting time is usually less.

14.5 Summary

- A service firm has to take business decisions at three levels: corporate level, business unit level and functional level. Firm's decision on the marketing strategy is based on BCG Model, GE matrix Model, Porter's Model and Ansoff's Grid.
- A service firm uses BCG Matrix to categorize its SBUs or its products as Stars, Cash Cows, Problem Children (or Question Marks) and Cash Crunch (or Dogs). The parameters of classification are market share relative to its competitors and the growth rate of the industry of the respective SBUs.
- GE model is also used for allocating limited resources amongst a service firm's SBUs or service products, and then developing marketing and corporate level strategies for them.
- For strategies at the SBU level, Michael Porter urges service firms to first assess scope of target market and differential advantage(s) and then choose the appropriate strategies.
- The basis of the Ansoff Grid is that growth becomes an objective for the service firms as it will garner revenues, make it competitive and strong - and get profits. Growth can be achieved only with greater understanding of the service firm's markets and its offers - and deliberately and methodically utilizing them as growth drivers.
- Strategy for a marketer would imply a plan of action that is the prerogative of top marketing management, is usually long term and comprehensive in concept, and affects the whole organization and the firm's whole market.
- Service recovery is a process that identifies service failures, effectively resolves customer problems, classifies their root cause, and yields data that can be integrated with other measures of performance to assess and improve the service system.

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- An organization has to track and sketch the demand level for its services at specific time periods. If an organization maintains a customer database and a record of varying demand levels over a period of time, this can be done with ease and accuracy.
- To match its demand and capacity, there are two options for an organization. It can either opt to shift the demand to meet the capacity or to increase or decrease the capacity to match the demand fluctuations.
- In order to alter capacity to match demand the firm can employ part time workers, outsource, share facilities, rent equipments, schedule maintenance during downtime, cross train employees, etc.
- The queuing system consists primarily of the waiting line(s) and the available number of servers. Factors to consider with waiting lines include the line length, number of lines, and queue discipline.
- Managing waiting lines is important aspect of service management and it can be done by diverting customers attention while waiting, informing customers about waiting time, encouraging them to visit during off peak period, segmenting customers, training servers to be more user friendly, etc.

14.6 Keywords

***Cash Cows*:** Low growth or mature industries having relatively high market shares.

Cash Crunch: SBUs not doing well vis-à-vis competitors nor is their industry growing.

Cost Leadership: Competitive strategy where service firm seeks to be a low cost producer.

Diversification: Venturing into a new market with a new product.

Divest Strategy: Dispose off a SBU from the portfolio.

Focus Strategy: When SBU concentrates entire attention on specific customer segment.

Problem Child: SBUs which have doubtful future.

SBU: Strategic Business Units.

Service Recovery: Correcting service failures occurred during entire process.

14.7 Review Questions

1. Critically analyse the BCG matrix in context to the services sector.
2. Do you think that BCG matrix was a better way to study market than GE model? Why or why not?
3. Discuss Porter's Model in context of Indian modern retail scenario.
4. "Growth can be achieved only with greater understanding of the service firm's markets." Discuss.
5. Perform a SWOT analysis of any one service firm in hospitality industry and one banking firm.
6. "Service Recovery means a second chance". Comment.
7. In the education sector what are the possible capacity constraints that the service firms can face?

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8. "Understanding and sketching a pattern of demand variation is very important in services". Discuss.
9. Suppose you are the marketing manager of a healthcare firm. What would you do to manage excess demand if you have capacity constraints which you cannot change?
10. Suppose you are the marketing manager of a hotel. What would you do to manage excess demand knowing that you cannot control demand?
11. What are the ways to manage the customers waiting to avail the service in a bank and at a doctor's clinic?
12. Do you think that the waiting time and management of waiting lines are linked with customer loyalty? Substantiate your answer.

Answers: Self Assessment

1.	c	2.	b
3.	d	4.	c
5.	False	6.	True
7.	True	8.	True
9.	Capacity	10.	Facilities
11.	Time	12.	Capacity/demand
13.	True	14.	True
15.	False	16.	True

14.8 Further Readings

Books

C Bhattacharjee, *Services Marketing*, Excel Books, New Delhi

Christopher H Lovelock, *Services Marketing*, third edition, Prentice Hall, US

Douglas Hoffman and John E G Bateson, *Essentials of Service Marketing: Concepts, Strategies and Cases*, 2nd Edition, India: Thomson Asia, 2002

Leonard L Berry, *Great Service: A Framework for Action*, the Free Press

Online links

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