

# **Services Marketing**

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**Part I**

**Introduction to Services Marketing**

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## **Chapter 1**

# **Understanding Services**

**In this chapter we will discuss:**

- Factors Influencing the Growth of the Service Sector
- Services Defined
- Tangibility Spectrum
- Characteristics of Services
- Generic Differences between Goods and Services
- Classification of Services
- Developing Frameworks for Analyzing Services
- Myths about Services

## Services Marketing

*“When you build a manufacturing plant, it starts depreciating on the day it opens. The well-served customer, on the other hand, is an appreciating asset. Every small act on her or his behalf ups the odds for repeat business, add-on business, and priceless word-of-mouth referral.”*

**Tom Peters – a renowned author and management guru**

The three major sectors that contribute to the development of the economy of a country are agriculture, manufacturing and services. Of the three, the share of the service sector in the world's economy has been growing steadily over the past few years. In developed countries like the US, the UK, Canada and Australia, the service sector accounts for more than 60% of the GDP and generates three times more employment than the manufacturing sector. In developing countries too, where agriculture and industry were major employment generating sectors till a few years ago, there has been a major shift towards the service sector. In India, services account for about 56% of the country's GDP in 2002. The share of service sector in GDP increased sharply from 43.69 per cent in 1990-91 to 51.16 per cent in 1998-99 while that of industry and agriculture has declined from 25.38 per cent and 30.93 per cent, respectively, in 1990-91 to 22.01 per cent and 26.83 per cent in 1998-99.<sup>1</sup>

This change in the relative importance of the sectors can be explained as follows. In a developing country, agriculture forms the major sector that provides employment to a large part of the population. It also would be the major contributor to the country's GDP. After some time, as the nation progresses and technology develops, there would be an increased investment in the industrial sector. The economy gets more industrialized and the focus shifts from agriculture to industry. People shift from the rural to the urban areas to work in the manufacturing firms. Because of the use of technology and advanced equipment, the productivity of the industrial sector increases. The manufacturing sector then dominates the agricultural sector and becomes a major contributor to the country's GDP. As the country develops further and the per capita income increases, people also start spending more on services like healthcare, insurance, legal, communication and entertainment. This improves the market for services in the country.

Some of the growth in the service sector can be attributed to the advances that have occurred in the field of information technology. Knowledge-based services like banking and insurance, consultancy, health care and education are now actively traded across countries. The internationalization of services presents both opportunities and challenges for developing countries.

In this chapter, we will try to define services, discuss the factors that have encouraged the growth of the service sector, understand the characteristics of services, the differences between goods and services, and dispel some myths regarding services.

## FACTORS INFLUENCING THE GROWTH OF THE SERVICE SECTOR

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Apart from the factors discussed above, there are some other factors that influence the growth of the service sector. These factors are discussed below:

### Demographic Changes

The demographic changes taking place in a country have a significant influence on the growth of the service sector in the country. There are three phases of demographic growth, which have relevance to the growth of services. In the first phase, the rate of mortality and fertility decrease. As a result, the number of births per year decrease and people live longer. In the second phase, the proportion of young people in the

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<sup>1</sup> Source: The Economic Times. January 24, 2000

population increases. If the country is able to provide employment opportunities for these young people, they will have enough disposable income to spend after having purchased essential commodities. This provides an opportunity for service industries to market their services to the young. In the third phase, the number of aged people in the country increases. Increased awareness prompts people to save money for the time when they are no longer able to earn. Therefore, in this stage of demographic development, old people who have enough money and leisure to spend their savings, form an important segment for the service industry (Refer Exhibit 1.1).

Most developed countries like the US, the UK and Japan are either in the late second phase or early third phase of demographic growth. But most developing countries are in the first phase or early second phase. India has just entered the second phase of demographic growth. According to one estimate, by 2020, young population (15-49) is estimated to constitute 900 million of the total population of about 1.3 billion. India, thus offers a lucrative market for service industries. This explains the phenomenal growth in service industries like banking, insurance, airlines and the hospitality industry in India.

### Social Changes

The standard of living of people around the world has improved significantly. This also holds for several developing countries. In India, more and more women are entering the workforce thus increasing the number of double-income households among the middle class. As a result, the disposable incomes of middle-class families have increased phenomenally creating a host of opportunities for service industries. Child-care service provision has risen because of the increase in the number of working mothers. There was an increase of 11.9% in the growth of services like hotel, transport and communication in the second quarter of the financial year 2003-04. The health care, education and entertainment industries are also growing fast and so is retailing. There are many more takers for convenient shopping in malls on account of the busy lifestyle of working people in urban areas. These malls make available a variety of products and services under one roof, and the consumption of products as well as services expands. Shopper's Stop and Lifestyle are two leading retailers in India; they have outlets in several cities across the country.

As more people in developing countries now work in multinational companies or have business that takes them abroad, they are exposed to high-quality service providers, and become consumers of similar services in their home market. The media has also helped increase public awareness of high-quality service. People compare the services offered by various service providers and select the best. This has compelled players in the service industry to improve the quality of their services. In India, liberalization of the service sector and the entry of foreign players have contributed to an increase in competition among service providers and has thus led to an improvement in the quality of services offered to customers. Improvement in the quality of services also involves generation of a larger amount of money through services, resulting in a higher proportional contribution of services to the country's GDP.

### Economic Changes

In the 20<sup>th</sup> century, many socialist countries like Russia transformed themselves from socialist economies to capitalist economies. As the governments in these countries withdrew control over services such as finance and real estate, there was a surge in demand for these services, which was met by the growth of private companies in the service sector. Prior to this transformation, the governments of these countries limited the supply of these services and curbed the growth of service sector.

### Exhibit 1.1

#### Change in Demographics can Enhance Opportunities for Service Providers

According to some estimates, one-third of the population in Japan will be above 65 years of age by 2050 and the total population will have fallen by 27 million. The IMF estimates that Japan's GDP will fall by 20% in the coming century due to a decline in workforce in the country. But statistics show that Japan's senior citizens have high spending power. According to a study conducted by Dai-Ichi Life Research Institute in 2003, the spending power of senior citizens (above 65 years) was 100, of young people (below 29 years) was 96 and of middle-aged people (30-49 years) in Japan was 102. Moreover, according to a market survey group Dentsu, seniors will consume 52% of the products and services produced in Japan by 2010. On average, a Japanese senior citizen owns a bigger house than a younger Japanese man because real estate prices were lower when the former bought the house. Because of the higher value of assets owned by seniors, they are eligible for more credit than younger people and this adds to their purchasing power. Therefore, businesses in Japan cannot ignore the segment of senior citizens.

There were some myths about the people in the old age group. It was felt that seniors would like to avoid busy life of metropolitan areas and prefer to lead a simple life in small towns. At the most, they may join seniors' clubs in their towns for socializing with others. However, it has been observed that seniors are trying to learn how to use the Internet and develop friendship with like-minded people in remote areas. They are also interested in traveling and meeting people. This offers a great opportunity for travel agencies. Seniors' clubs in Japan are earning huge profits by selling discount train tickets and package tour tickets to their members and their friends. Seniors are even going for trekking tours for which they buy sports goods and other outdoor goods. They are also buying fashionable garments. This presents a good opportunity for retailers to market their products.

Another myth was that old people have plenty of time and would not like to spend on services meant for working people. However, studies have shown that seniors are ordering meals from costly restaurants and hiring the services of house-cleaning agencies. People in this age group are also conscious of their physical appearance. They visit gyms and beauty salons regularly. A study revealed that Japanese women aged between 50-60 years are spending up to 200,000 yen in beauty salons.

Apart from this, senior citizens go to movie theaters, attend concerts and other shows. Therefore, entertainment sector also needs to give special attention to the tastes and preferences of the senior citizens.

*Adapted from Darrel Whitten, "Behold the Gray Panthers," Japaninc.com. (services mktg/chapter 1/how change in demographics offer more service opp.pdf)*

Globalization is one of the major factors that has contributed to the growth of service sector. Since several developing countries have removed cross-border trade barriers, there has been a large inflow of capital from developed countries to developing countries. More and more MNCs have started opening their shop in India. The greater inflow of capital can lead to an increase in the provision of financial services as well, to manage the capital. The series of steps initiated by the RBI (Reserve Bank of India) have resulted in interest rates coming down and as a result, the demand for personal finance services has also increased. For example, there has been a tremendous growth in the demand for home, educational and other personal loans. As more and more Indian firms are now able to enter other countries due to reduced trade barriers and exploit the business opportunities there, the demand for services of Indian firms has also increased.



### Technological Changes

Advances in information technology have also facilitated the growth of the service sector. In the past, the responsibility of a company ended once it shipped the product to the customer. But now, firms have realized that they can differentiate themselves from their competitors by offering after-sales support services. For example, Federal Express, a leading US-based shipping company, not only ensures that the items sent by its customers reach the destination on time, but also enables customers to track the shipping status of the consignment from time to time on its website. With the help of sophisticated technology, firms like Dell and Microsoft offer valuable support services to their customers. Dell enables customers to seek online assistance from its expert technicians to resolve their system related problems. All these technological advancements contribute to the growth of services in an economy.

### Political and Legal Changes

Political and legal changes have had a great impact on the service sector in countries like the former USSR and the Republic of China. *Glasnost* (openness) and *Perestroika* (restructuring), the reforms introduced by President Gorbachev of the USSR in the early 1990s were aimed at revolutionizing the economy of the country. End of the Mao regime in China also brought about a shift from a dominant socialist economy to a mixed economy where capitalism has also found its ground. In the Indian context however, there have been no major political or legal changes that have had an impact on the country's economy. The reforms introduced in the early 1990s have been more of policy changes than political or legal changes.

### Policy Changes

Policy changes brought about by the government of a country can have a major impact on the almost every sector of the economy, including the service sector. Policy reforms in India paved the way for strong growth of the service sector in the country. Opening up of the economy has paved the way for the Indian service organizations, especially those in the IT and IT enabled services to expand their markets. The entry of global players into the Indian market has improved the standards of services being offered to the Indian consumer. This has also helped the Indian service providers gear up to face the competition.

Realizing the importance of telecommunications infrastructure for the growth of the economy, the Government of India began to deregulate the telecommunications sector in 1993. With the entry of private players in the telecom sector, the quality of services improved, prices came down and the demand for telecom services increased. The Government's steps to improve the infrastructure for communications also served as a boon to the software industry.

In the late 1990s, the government moved to improve the legal and regulatory framework in the country also spurred the growth of foreign service providers in India. For instance, India enforced copyright law in May 1995. In 2003, a law was passed to offer protection to the logos and trademarks of service providers which was not existent till then. The changes in India's trade and economic policies have resulted in many leading global players in diverse areas like automobiles, fast food joints and financial services setting up their shop in India. Leading software companies like Microsoft and Oracle were also allowed in and have established software development centers in India.

India's new EXIM policy also seeks to encourage the growth of the service sector in the country (Refer Exhibit 1.2). The latest changes to the policy announced in January 2004 allow duty-free import of professional equipment which is expected to benefit the hospitality industry and also encourage the growth of the service export sector.

### Exhibit 1.2

#### Initiatives taken by India to Promote the Growth of Exports in the Service Sector

The Indian government has taken many initiatives to encourage the growth of exports in the service sector. Some of them are discussed below:

- Firms in the service sector earning a minimum of Rs 1 million in foreign exchange are allowed to import products and services without paying any duty. (The exemption is applicable as long as the value of the imported goods and services does not exceed 10% of the average foreign exchange earned by the firm in the past three financial years.)
- The Exim Bank offers support services and financial assistance to exporters of products and services. Guarantees worth Rs. 9.33 billion were sanctioned by the bank in 2002 to exporters. Particularly in the services sector, the bank sanctions guarantees to firms undertaking technical consultancy contracts, construction contracts in crude oil production, power generation and transmission, and infrastructure projects.
- In 2002, the Exim Bank assisted Indian firms in obtaining several service contracts from foreign firms. The overseas contracts secured by Indian firms included seventeen construction contracts worth Rs 16.96 billion, twenty-five turnkey contracts worth Rs 31.22 billion and some technical consultancy contracts.
  - i. The construction contracts included those pertaining to dams in Saudi Arabia, crude oil pipeline projects in Turkey and Qatar, a micro tunnel in Kuwait, a residential complex in UAE, a hotel in Afghanistan, cyber towers in Mauritius, a training institute in Kuwait, and a gas transmission pipeline in Indonesia.
  - ii. Some of the major turnkey contracts secured were power generation and gas development projects in Tanzania; power generation projects in Iraq and Oman; power transmission and chilled water plant projects in UAE, power transmission projects in Algeria, Bangladesh, Brazil, Ethiopia and Tunisia and a sulphur recovery project in Kuwait.
  - iii. Indian consultancy firms secured consultancy contracts for a hydrocarbon project in Algeria, establishment of a cement plant in Nigeria, a railway track project in Malaysia and a road project in Mongolia.

*Adapted from Devesh Kapur and Ravi Ramamurti, "India's emerging Competitive Advantage in Service," Academy of Management Executive, May 2001, Vol 15 and "India-US Bilateral Trade Zooms in 2002", March 4, 2003 ([http://www.indianembassy.org/press\\_release/2003/mar/04.htm](http://www.indianembassy.org/press_release/2003/mar/04.htm))*

The hospitality industry is expected to benefit as hotels in certain segments are now allowed to import costly equipment that will assist them in the preservation of food and beverages. The service export sector will benefit from the changes to the EXIM policy since these make it easier for firms operating in this sector to import office equipment and professional equipment.

## SERVICES DEFINED

Adrian Payne<sup>2</sup> has defined service as an activity that has an element of intangibility associated with it and which involves the service provider's interaction either with the customers or with the property belonging to the customer. The service activity does not involve the transfer or ownership of the output.

<sup>2</sup> Adrian Payne, *The Essence of Services Marketing* (Delhi: Prentice-Hall India, 1993)

According to Philip Kotler, service is "any activity of 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."<sup>3</sup>

Therefore, it can be said that services are those activities which satisfy wants. Some services are offered individually while some services are offered as a supplement to a product purchased or a major service consumed by the customer. Essentially, services are intangible but sometimes they may involve the use of some tangible goods. In such case, the title of goods doesn't change from the service provider to the customer.

The above definitions emphasize the intangible characteristic of services. But some services do have a tangible component. For example, retailing is a service in which tangible products are offered for sale in the retail stores. Restaurants are another example of tangible service in which food (tangible) is served to customers.

### **TANGIBILITY SPECTRUM**

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The major factor that differentiates a service from a product is its intangibility. However, it should be noted that the line separating products and services is fast thinning down. Marketers today try to attach an element of service even to the products, to attract customers and enjoy their loyalty. For example, when a customer buys a car, he enjoys a free service for the first 3 years from the car company.

According to Zeithaml and Bitner<sup>4</sup>, intangibility plays a key role in determining whether an offering made by a marketer is a product or service. In some cases, the service provider also gives the customer a tangible element bundled together with his service. For example, airlines offer magazines and food to customers who hire their services. These are the tangibles associated with the service offered by the airlines.

If goods and services are represented on a continuum with highly tangible goods on the extreme left and highly intangible services on the extreme right, the bundle of goods and services will fall somewhere along the middle of the continuum. The world-renowned marketing guru, Philip Kotler, classified products/services into four categories depending on their degree of tangibility:

- **A pure tangible good:** This includes products like wheat, sugar, soap and cosmetics which do not have any service component associated with the product.
- **A tangible good with accompanying services:** This includes products like computers, cars, air conditioners and machinery equipment where their manufacturers offer after-sales service to improve customer satisfaction.
- **A major service accompanying minor goods and services:** Some beauty salons provide their customers with some of the beauty products for further care. Child-care centers provide baby food to the babies under their care.
- **A pure service:** Surgery, consultancy and teaching are pure services.

### **CHARACTERISTICS OF SERVICES**

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The major characteristics of services are intangibility, inseparability, heterogeneity and perishability. They are discussed below:

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<sup>3</sup> Philip Kotler et al, *Social Marketing: Improving the Quality of Life*, 2<sup>nd</sup> edition (US: Sage Publications, 2002)

<sup>4</sup> Valarie A. Zeithaml and Mary Jo Bitner, *Services Marketing: Integrating Customer focus across the Firm*, 3<sup>rd</sup> edition (New Delhi: Tata McGraw-Hill, 2003)

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### **Intangibility**

A product is a physical entity, which can be touched. It can be seen, heard, touched, smelt, tasted and tested even before purchasing it or consuming it. For example, when a consumer decides to buy a bike, he can see it, touch it and test drive it to understand its performance. Therefore, he has a better idea of the product before deciding whether to buy it or not. But a service is not tangible unless it is experienced or consumed. The quality of a service cannot be established as clearly as it could be done in the case of a product. For example, when a customer decides to employ the services of a bank in obtaining a loan for the first time, he does have an idea about the services offered by the bank, but he can really assess the services only after he avails them. A bike can be defined in terms of its HP and mileage, but a service cannot always be defined in absolute terms.

Different people have different expectations with regard to the same service. Also, since the quality of the service is not always strictly measurable owing to the intangible nature of services, it is sometimes difficult for service organizations to determine quality markers and market their services accordingly. For example, in the case of the bank, some customers may consider being given personal attention by customer service executives as a vital aspect of service quality while some customers may consider faster transactions more important. Since all customers do not have the same preferences, the service provider does not know what exactly should be offered to ensure complete customer satisfaction.

When compared to product manufacturers, it is more difficult for service organizations to ensure consistency in service delivery. For example, HLL can ensure that all the soaps manufactured by it are of same quality but a service organization such as Prudential Insurance Company might not be able to ensure the same quality of service to every customer or each time a customer approaches the organization. However, more and more service organizations are employing stringent measures to ensure that the quality of their services is standardized. Another point to be noted here is that it is not always possible for the manufacturing firms either to maintain hundred percent consistency in their product quality.

### **Heterogeneity**

A machine can produce units identical in size, shape and quality. But a human being cannot work as uniformly and consistently throughout the day. Since a service is offered by a human being, there is a high probability that the same level of service may not be delivered all the time. The service offered by one employee may differ from the service offered by another although they may belong to the same company. Even the service offered by the same employee may be different at different times of the day. After serving customers continuously for several hours during the day, an employee may not be able to offer the same level of service towards the end of the day. Also, the quality of service offered by employees at one branch of a service organization may differ greatly from the service offered at another branch. But if the variation in service quality becomes extremely obvious, customers may be dissatisfied and switch to a competing firm. Also, the customers may not be able to predict the level of service they would obtain from the firm, the next time they visit it. Hence, service organizations should try to maintain consistency in the services they offer by taking special care in recruitment, selection and training of employees.

In some cases however, heterogeneity can benefit the organization. Some customers want specific services which may not be needed by other customers. In such cases, the organization can offer customized service to such customers and charge a premium from them. For example, a manufacturing firm may purchase limited or customized services from an IT service provider. Some other firm may hire the end-to-end solutions of the services company for its operations.

### Inseparability

A service is consumed by the customer as soon as it is delivered by the employee. Thus, production and consumption occur simultaneously in case of services as opposed to products which are manufactured, inventoried and then consumed. Services cannot be inventoried and need to be consumed immediately. Since the delivery and consumption of a service are inseparable, there has to be interaction between customers and employees of a service organization. For example, the interaction between patient and doctor is essential if the patient has to be treated for an illness. In the case of a hotel, the interaction between a server and a customer is essential for the former to take the order for food and serve it to the customer for consumption. As a result, customers tend to equate the quality of service offered by the organization with their interaction with its front-line employees. Therefore, service organizations should take special care in training and motivating employees. Front-line employees should be trained to be professional in their approach, courteous in the way they talk to customers and patient in dealing with queries.

### Perishability

Unlike products, services cannot be inventoried or stored for future consumption. Suppose, a hotel has 40 rooms. But on a particular day, only 10 rooms are occupied. The hotel has an idle capacity of 30 rooms on that day. This is a lost business opportunity for the hotel owner. The fact that it may be fully booked the next day does not compensate for the idle capacity on that day. It cannot be recovered as it is lost for all time. Suppose a showroom recruited 5 additional sales people during festival season to serve customers efficiently. But for some reason, customers do not show up in the large numbers expected. The showroom owner incurs a loss by having excess service capacity. In both the cases mentioned above, the organizations lost opportunities to earn revenue, when the services were on offer. Thus, the perishability of services is another factor that leads to complexity in management in the service sector. Service organizations need to be extremely cautious in their demand and supply plans. They need to consider all the possible factors that affect the demand for their service and strive to avoid excess or shortage of capacity to meet demand.

## **GENERIC DIFFERENCES BETWEEN GOODS AND SERVICES**

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The characteristics of services that were discussed in the above section are not necessarily applicable to all services. Therefore, they cannot be used as standards to distinguish a product from service. Therefore, Lovelock attempted to classify services 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.

### Nature of the Product

Leonard L. Berry defined a 'good' as an object, a device or a thing and a 'service' as a deed, a performance or an effort. A product can be a pure *tangible good* like a pencil, cup or car battery, or a *tangible good supplemented by some services* like a fax machine with after-sales service, or *services supplemented by a tangible good* like books provided by a distance education institute to students, or a *pure service* like hair-cutting. The strategies adopted by marketers for marketing each of the above products will vary greatly. The marketer of a tangible good emphasizes on the quality and functionality of the product. For example, Eveready emphasizes the quality,

## **Services Marketing**

longevity and reliability of its car battery and its 3-year warranty period. Fuji-Xerox emphasizes on productivity and cost efficiency of its fax machine and also offers after-sales service to the customers.

### **Problems in Quality Control**

The intangible nature of services makes it difficult to define and establish specific standards for delivering quality service. Moreover, perception of quality differs from one customer to another. For example, even if a hotel serves tasty food, the ambience is good and the waiters serve their customers with a smile, a particular customer may experience dissatisfaction with the hotel's service quality if the waiters do not assist him in finding a vacant table or fail to take orders quickly, if they are the benchmarks of quality for him. In contrast, another customer may ignore all these aspects of service if the food is tasty and may express his satisfaction with the quality of service.

Further, service providers do not have the opportunity to improve the service quality once it is delivered because it is consumed immediately. Hence, they have to take all possible care to ensure that things are done right in the first instance and superior quality of service is offered to the customer.

### **Involvement of the Customer in Production and Delivery**

As opposed to a product which is manufactured and stored till the customer purchases it, a service needs to be produced and delivered in the presence of the customer. In some cases, the customer plays a role in the design and delivery of the service itself. For example, if a customer walks into a coffee shop like Coffee Day or Barista, he can ask for a customized drink with no sugar or with a chocolate flavor (within the constraints of the coffee shop of course). The customer also plays a role in the delivery of the service. He can force the service into an unpleasant experience if he is in a bad mood, by shouting at the service assistant. On the other hand, he can make the interaction a pleasant one by being friendly with the people around.

Service organizations are generally people intensive. Advances in technology have, however, allowed some service providers to replace people with machines. For example, cashiers in banks are replaced by automatic teller machines (ATMs). Use of machines reduces costs and increases precision of service. Telephone banking is also being offered by many banks enabling customers to complete most of their transactions on the phone. The use of these new systems has resulted not only in increased convenience to customers but has also increased customer involvement in the service delivery process.

### **Absence of Inventories**

Services are perishable. They cannot be stored for future use like most products. Suppose an experienced and renowned painter agrees to share his techniques with amateur students for a couple of hours on a Saturday evening (he's quite busy and rarely does he agree for something like that). If the organization arranging this interaction makes the mistake of announcing it as Sunday evening, the students miss out on an opportunity. The opportunity thus lost, is perhaps lost forever, for the organization as well.

Suppose a student desirous of pursuing a Ph.D. under the guidance of a renowned professor is rejected by the latter because he has already 5 candidates under him and will not be able to accept any more students due to some constraints. The student then has to search for another guide so that she doesn't waste an academic year. In this case, the demand for the service could not be met because it exceeded the available capacity.

### Structure and Nature of Distribution Channels

There is a certain time gap between the production, distribution and sale of a product to the final customer. However, in the case of services, all these processes occur one after the other without any gap in time. The distribution channel is more or less absent in services (except for franchises or third-party agents) and the system is more similar to the direct marketing of goods. In most cases of service delivery, the customer interacts directly with the producer/provider of the services and avails the services. For example, if a customer is interested in hiring the services of a financial service provider, he directly interacts with the employees or the agents working for the firm. However, in the case of a product like a television, the consumer might interact with the retailer who has procured it from the dealer, who in turn has distributed the product for the marketer/manufacturer of the television.

### Importance of Prompt Service

Time plays an important role in the service sector. A customer does not wait beyond a certain period of time for a service to be delivered. If a service provider exceeds a certain time limit, the customer feels dissatisfied and looks for another service provider. However, the tolerance limits also tend to vary depending on the type of service. A person waiting for a public transport service may not mind waiting for more than 20 minutes at a bus stop to board a bus. But the same person will not be so tolerant if the taxi he has hired arrives 10 minutes late and will express dissatisfaction with the poor quality service offered by the company.

### Difficulty in Evaluating Service Quality

Unless and until a person experiences a service, it is difficult to determine the service quality. Hence, customers find it difficult to evaluate the quality of service offered by various service providers and select the best one. In such cases, customers depend on the experiences of other customers to select the service provider. There is no better method of promotion than word-of-mouth publicity for services. Prior to joining any college for higher education, students ask ex-students about the quality of education in their college. Similarly, patients try to select the best hospital for their treatment by making inquiries from other patients.

Another aspect is the different perceptions of different customers regarding the quality of a service. This has been discussed in the earlier paragraphs and renders evaluation of service quality difficult.

## CLASSIFICATION OF SERVICES

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It is essential not only to distinguish between goods and services but also between different services in order to formulate appropriate strategies for marketing them. Some of the bases for classification of services are discussed below:

### Classification based on Degree of Involvement of the Customer

In this type of classification, services are categorized based on the degree of involvement of the customer in the service delivery process:

- **People Processing:** The customer is highly involved in the service process and needs to be physically present in order to experience the service. In people processing, the service is directed at the customer. For example, at a school or training center for dance, the students availing the services have to be present in

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person. Other examples of services that involve people processing are health care centers, passenger transport services, beauty saloons, lodging and boarding services, educational services and fitness centers.

- **Possession Processing:** The customer doesn't require to be present to experience the service but has to submit his property to the service provider for the latter to deliver the service. In possession processing, the service is directed at the possession and not at the customer. For example, if a person wants his car to be serviced, he has to leave it with the mechanic for some time to enable the mechanic to change the oil, check the gears, brakes, etc. and wash and clean it thoroughly. Laundry and dry-cleaning services, postal service, courier service and freight transportation are other examples of such services.
- **Mental Stimulus Processing:** In mental stimulus processing, the attention of the customer must be directed on the service in order to experience the service. In this case, the service is directed at the mind of the customer. For example, a person taking career counseling from a professional counselor gets stimulated mentally to take the right decision or develop the right attitude. Other examples of such services are advertising, entertainment, and education and consultancy services.
- **Information Processing:** This type of service requires service personnel to collect information, analyze it, interpret and offer appropriate advice to the client. For example, a market research firm hired by a company collects information from customers to know their opinion about the company's products or services, customer expectations and suggestions to improve the products/services. The employees of the firm then analyze the information and prepare reports in a way that allows the management of the company to formulate strategies to improve its sales. Information processing also takes place in services such as accounting, insurance, legal services, programming, data processing and data transmission.

### Classification based on the Service Tangibility

Services, based on the degree of tangibility, can be classified involved into:

- **Highly tangible:** In these services, the customer obtains a tangible product in hand, though it may sometimes last for only a small period of time. For example, if a person takes a cell phone on rent, he obtains the tangible product (the cell) that he can use for the period of contract. After the contract period is over, the cell phone is returned to the service provider.
- **Service linked to tangible goods:** Some organizations offer a warranty period to customers who purchase products from them. During this period, they offer free service if the customers report any problem with the product. For example, if an organization buys a photocopying machine, the manufacturer offers free service for a few years, depending on the model.
- **Tangible goods linked to services:** Some services offer a tangible product along with the service requested by the customer. For example, airline services offer food and magazines to passengers, and market research firms provide clients with a detailed report of the research results.
- **Highly intangible:** These are the services which do not provide customers with any tangible product. For example, at a massage parlor, the customer might not get anything tangible, except for the relaxing experience. He might smell the aromatic oils or feel relaxed while undergoing the massage, but does not get any tangible product.

### Classification based on Skills and Expertise Required

Services can be categorized as follows based on the skills and expertise required by the service provider to offer the service.



- **Professional services:** These services require the service provider to be formally trained to deliver the service. The service rendered by a doctor, a pilot, an IT consultant or a corporate trainer are examples of professional services.
- **Non-professional services:** These services do not require the service provider to undergo any training to deliver the service. For example, baby-sitting and housekeeping are examples of non-professional services and can be delivered without the need for formal training.

### Classification based on the Business Orientation of Service Provider

Services can be categorized based on the service provider's purpose of doing business:

- **Not-for-profit organizations:** These are the services in which the main objective of the service provider is to serve society and not to make profits. For example, government schools and social service organizations are not in the business to make a profit.
- **Commercial organizations:** These are services in which the main objective of the service provider is to earn revenues and make profits. Airlines, insurance firms and restaurants charge customers for the services they offer and attempt to continuously improve their services and profitability.

### Classification based on the Type of End-User

Services can be classified into following categories depending on the type of customer who consumes them:

- **Consumer services:** These services are purchased by individual customers for their own consumption. For example, beauty care, physiotherapy and hair cutting are examples of consumer services.
- **Business to Business (B2B) services:** These services are purchased by organizations. For example, market research, consultancy and advertising are some of the B2B services.
- **Industrial services:** Industrial services are generally based on a contract between organizations and service providers. Machine installation and plant maintenance are some examples of such services.

## DEVELOPING FRAMEWORKS FOR ANALYSING SERVICES

Grouping of services using the right basis enhances the ability of managers to solve complex problems they face in marketing services. Let's first observe how classification of goods has improved the ability of managers in manufacturing firms to solve marketing problems. In the beginning, goods were classified into convenience, shopping and specialty goods. This classification enabled product managers to improve their organizations' distribution systems and serve customers' needs better. Later, another classification suggested that goods could also be divided into durable and non-durable goods. The classification enabled manufacturers to improve their distribution as well as communication strategy. Later, classification of goods into consumer goods and industrial goods emphasized the differences in the behavior of the customers of these goods, and the way they evaluate the products and purchase them. The classification also emphasized some commonalities that existed between various industries. This enabled managers to improve their marketing strategies. As long as goods were categorized in a way that confined each good to a specific industry, it restricted the scope for knowledge-exchange between the industries. Once

## Services Marketing

the classification had risen above industry barriers, managers realized various commonalities between the goods belonging to different industries and the opportunity to learn from the experiences in other industries to solve their own problems.

According to Christopher H. Lovelock<sup>5</sup>, if services can also be categorized based on similarities in certain characteristics rather than the industry to which they belong, there will be a significant improvement in the development and implementation of marketing strategies. He framed the following five questions to determine the category into which a particular service falls:

- What is the type of service?
- What is the nature of relationship between the customer and the service organization?
- How is the service delivered?
- What is the type of demand and supply for the service?
- To what extent is the service provider needed to customize service and exercise judgement?

### What is the Type of Service?

The service provider has to define and identify the target customer and analyze where the service figures in the tangibility spectrum.

A service may be a tangible activity directed at the customer or at a physical possession belonging to the customer. For example, if an Indian Airlines plane flies from India to Sri Lanka, the passengers are physically transported from one place to another. If FedEx delivers a parcel sent by a customer in Delhi to his friend in Chennai, it is the physical asset or possession of the customer that is being transported physically.

A service may be an intangible activity that is directed at a person's mind or an intangible asset belonging to the customer. For instance, if a renowned management guru visits a management institute and delivers a lecture on knowledge management for two hours, it enlightens the students and he is said to have influenced their minds. Similarly, if an insurance agent manages to persuade a customer to purchase a life insurance policy for himself and his family members, he has directed the service activity at an intangible asset of the customer (the life of the customer and his family members).

### What is the Nature of Relationship Shared by the Customer with the Service Organization?

For most products, consumers purchase them as and when they need them and do not maintain any long-term relationship with the manufacturer. If a product manufacturer offers after-sales service for a certain period, the buyer may maintain relationship with the former for that period of time. However, industrial buyers often maintain long-term relationship with their suppliers to have a reliable supply of quality products.

In some services, customers automatically enter into a long-term relationship with the service provider. For instance, if an individual buys a life-insurance policy from an insurance firm, he has entered into a life-time relationship with the firm. Similarly, customers share a long-term relationship with telephone companies, banks and family doctors. But in case of some services like retailing, haircutting and beauty care, people do not have a long-term relationship. They tend to switch loyalties frequently.

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<sup>5</sup> Christopher H. Lovelock. *Services Marketing*. Third edition. US: Prentice Hall International, 1996.

### How is the Service Delivered?

The method of service delivery differs from one service to another. Some services require the customer to visit the service provider personally in order to receive the service. For example, a customer who wants to see a film on the big screen needs to go to a movie theater. On the other hand, some services require the service provider to visit the customer to deliver the service. For example, if an organization wants to employ the services of a house-keeping firm, employees of the house-keeping firm have to visit the customer's premises. In some services, the customer and the service provider need to come in direct contact with each other, whereas in some they don't need to. For example, in online retailing, the customer places his order and makes the payment over the Internet and the retailer ships the product to the customer. There are also some services in which the service provider needs to be present at multiple locations to offer good quality service to customers. For example, banks have a number of branches and ATMs within a single city to expand their reach to the customer.

### What is the type of Demand and Supply for the Service?

Demand for services is highly inconsistent and unpredictable. There are often fluctuations in demand which vary from narrow to wide. For example, the demand for emergency surgeries in a hospital may vary widely from one day to another. Suppose a hospital has one operation theater and two surgeons. On a particular day, there may not be any demand for surgery services at all. On another day, more than 3 patients may be brought to the hospital for a surgery at the same time. Since the hospital has only one theater, and all the three cannot be operated immediately, two of them have to be shifted to another hospital. But generally, such situations occur only occasionally and organizations are normally able to handle the demand. Some services like banking and insurance can adjust their capacity to meet the variations in demand, provided they have the capacity to meet the average level of demand. But some firms which have a limited capacity may find it difficult to meet a sudden rise in demand and may temporarily stop marketing activities to avoid any further increase in demand. For example, say a cable operator in a locality has 500 households as customers and has reached the limit as per the local rules for cable operators. He might not market his service any further after reaching the 500 figure.

### To what Extent is the Service Provider Needed to Customize Service and Exercise Judgement?

A service provider has more freedom and opportunity to customize his offer than a product manufacturer. The level of customization however varies from one service to another. Some services require service providers to customize their offering to meet the specific requirements of clients while some allow little scope for customization. For example, a lawyer needs to change the way he prepares himself and puts forth his points before the court to win the case for each client. This is because, in general, the case of each client is unique and his needs are different from others. However, there are some services where very little customization is required or can be provided. For example, when a movie is screened in a theater, there is very little customization as the screening, the movie, the facilities are all quite common for different viewers, except perhaps for the seating arrangement.

Some services require service personnel to exercise their judgement to serve customers efficiently whereas some services require the personnel to act mechanically. For example, a beautician will adjust the hairstyle and make-up of the customer to make her look the way she desires. But a technician sent by a company to install a machine at the client's establishment will follow the method he learnt during his training. He will not change the method unless instructed by his manager.

### MYTHS ABOUT SERVICES

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Globally, the growth in the service sector was quite slow because of some misconceptions held by people regarding services till a few decades back. But experience and statistics have shown that they were only myths and not reality. Some of the myths pertaining to services are discussed below:

#### **Myth 1: Service is a necessary evil for manufacturing firms**

Manufacturing firms offer services like repair and maintenance, to customers who buy their products and equipment. Though such services require organizations to incur some cost in the short-term, they help them reap huge benefits in the long-term. Global companies like GE, Motorola and Dell use service centers not only to offer support functions to customers but also to generate leads and convert prospects into customers. The service centers are used by these companies to differentiate themselves from competitors. Hence, the service function is not a necessary evil, but serves as a source of competitive advantage for manufacturing firms.

#### **Myth 2: The service sector is labor-intensive and less productive**

Although the service industry is considered to be labor-intensive, this doesn't apply to all services. While software, legal, consultancy and other knowledge-based services require the employment of a large number of people, power, transportation and telecommunication services require advanced technology and equipment, and thus investment of huge amounts of capital.

It was believed that the service sector depends on people to serve customers and as human capability is limited, service firms cannot improve their productivity beyond a certain point. Therefore, it was believed that service sector lags behind manufacturing sector in its productivity.

However, people have grown to realize that it is not feasible nor is it advisable to compare the productivity of two different sectors.

#### **Myth 3: Service firms earn less revenue when compared to the other two sectors**

It was earlier perceived that service firms earn less revenue when compared to manufacturing firms. The basic reason behind this assumption was that the services at that point in time were limited to only some areas like banking, house-keeping, transport etc. But as technology developed and the world progressed, services grew into a vast area with wide scope. Services like information technology, consultancy, retailing, specialized health care etc. evolved and developed, which have removed the myth. Today, it is infact perceived that service firms earn more than manufacturing firms because of the higher margins they enjoy.

Service firms like Wal-Mart and Microsoft have been ranked high among Fortune 500 companies. Therefore, it is not true that service firms earn less than manufacturing firms. In India, IT firms initially undertook small assignments from MNCs and earned marginal profits. But as they gained experience over the years, they began to take up higher-end projects and make huge profits (Refer Exhibit 1.3).

#### **Myth 4: Growth in the service economy is linked to the growth of the public sector services**

In India, the service sector including banking, insurance, railways, power, telecom, etc., were all under the government for a long time and there was no role for the private players in these areas. As these areas formed a big chunk of the national economy, it was perceived that growth in the service economy was linked to the growth of public sector services. The scenario has however changed after the liberalization and globalization as the economy has opened the gates for private players in different areas like banking, telecom, insurance, power and energy etc.

### Exhibit 1.3

#### Demand for India's Software Services

Initially firms like Wipro and TCS (Tata Consultancy Services) used to send their employees abroad to work on small projects for U.S. firms. The tasks of these employees included working on the Y2K bug, conversion of multiple currencies (of European countries) into Euro dollars, maintenance of software, upgrading of mainframes and other such activities, which were at the lower end of the value-chain. But, slowly, with the up gradation of the skill sets of Indian IT professionals and improvement in their ability to provide higher-end activities, IT firms in India have moved up the value chain. They have established offices in the US where they employ mostly Indians. These offices obtain small projects from MNCs and their employees with the new skills they have acquired and improved capabilities, execute these projects.

Wipro was the first company in the world to obtain the CMM (Capability Maturity Model) certification (a certificate granted by Carnegie Mellon University to software firms which have achieved maturity in the software development process) for its operations. The certification includes five levels and Wipro achieved a Level 5 rating, the highest rating. This clearly indicates the quality of software services in India. More than 20% of the Fortune 1000 companies are outsourcing their software operations to Indian IT firms. According to an estimate by McKinsey, the Indian software industry will generate \$87 billion by 2008.

There is an increasing demand for software services 'made in India'. This is why software operations at the CMM Level 5 of global giants like GE, IBM and Citicorp are at present being developed only from locations in India. Microsoft has invested more than \$50 million in India for developing its software development center set up in Hyderabad. Sun Microsystems has invested \$ 100 million in India for developing its engineering center. Adobe Systems plans to invest more than \$50 million in India to expand its research and development activities. Oracle is transferring a large part of its software development activities from other countries to its center in India.

These new developments can be attributed to the active initiatives taken by some state governments to encourage the IT industry. For instance, Hyderabad (AP) and Bangalore (Karnataka) have set up software technology parks, termed HITEC City and Electronic City respectively, which offer the infrastructure and other amenities needed for setting up software operations.

*Adapted from Devesh Kapur and Ravi Ramamurti, "India's emerging Competitive Advantage in Service," Academy of Management Executive, May 2001, Vol 15 and "India-US Bilateral Trade Zooms in 2002", March 4, 2003 ([http://www.indianembassy.org/press\\_release/2003/mar/04.htm](http://www.indianembassy.org/press_release/2003/mar/04.htm))*

Private telecom players like Bharti and Reliance have made their mark in the telecom sector while public sector insurance companies like LIC and others are facing stiff competition from the likes of ICICI-Prudential, HDFC-Standard Life, Tata-AIG, ING-Vysya, etc.

Services like communications, transportation and hotels registered a growth rate of 7.8% while insurance, real estate and financial services recorded a growth rate of 6.5% in 2002-2003. This growth was being achieved in spite of the declining role of the public sector in the economy.

#### **Myth 5: Marketing a service is not different from marketing a product**

Marketing a service is entirely different from marketing a product. There is a lot of difference between marketing a 'car' and marketing an 'airlines service.' To sell a car, the manufacturing firm has to emphasize on its features, mileage, durability and the service outlet network, all of which are tangible. In contrast, an airlines provider has to emphasize the quality of in-flight service offered by its staff, pre- and post-flight service offered (if any), the airline's history of on-time departures and arrivals and so on, which are intangible till the service is experienced. The intangible and

## Services Marketing

heterogeneous nature of services makes it difficult for service marketers to convince customers to buy their services. While product, price, place and promotion form the four P's of product marketing, three more P's, i.e. people, process and physical evidence, also need to be given equal attention by service marketers.

### **Myth 6: Growth in the service sector eliminates jobs from the manufacturing sector**

Some people are of the opinion that growth in the service sector results in an absolute decline in employment in manufacturing sector. This opinion may have been formed because in developed countries, the manufacturing sector is dominated by the services sector and the rate of growth of the service sector is greater than the rate of growth of manufacturing sector. Many manufacturing firms in developed countries have shifted some of their plants to developing countries because of the availability of low cost labor. This has resulted in a decline in employment in the manufacturing sector in these countries.

However, the myth is no longer held, as people have realized that it is natural that focus shifts from manufacturing to services as the economy develops and where the jobs in manufacturing sector decline, jobs in service sector increase, creating a balance.

Economists also explain that it is not the growth of the service sector that leads to a decline in employment in manufacturing sector; they attribute the loss of jobs in manufacturing to advances in technology, and efforts to improve productivity by restructuring and reengineering.

## **SUMMARY**

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Changes in demographic, social and economic factors, as well as institutional and policy changes are some of the major factors that influence the growth of the service sector. Most authors who define services emphasize the intangible nature of services in their definitions. However in some services like restaurant and retailing, the service is bundled with a tangible component. The important characteristics of services are intangibility, heterogeneity, inseparability and perishability. Intangibility refers to the lack of a tangible component associated with services. Heterogeneity refers to inability to maintain consistency in the way services are offered to customers. Inseparability refers to the need for customer to interact with the service provider to obtain the service. Perishability refers to the inability of service providers to maintain service inventories to meet future demand.

Christopher H. Lovelock attempted to classify services based on factors such as nature of the product, the customer as a part of the product, problems in quality control, involvement of the customer in the production process, absence of inventories, structure and nature of distribution channels, importance of prompt service, and difficulty in evaluating service quality. Services can also be classified based on the degree of customer involvement in the service delivery process, service tangibility, skills and expertise required, business orientation of the service provider, and type of end-user. Lovelock suggested that firms can market services better by dividing them into meaningful categories. He framed five questions to determine the category into which a particular service falls – What is the type of service? What is the nature of relationship shared by the customer with the service organization? How is the service delivered? What is the type of demand and supply for the service? To what extent is the service provider needed to customize service and exercise judgement?

There existed some misconceptions about the service sector, which have been eliminated as the time progressed and the economies worldwide developed. Economies worldwide have proved that the shift from agriculture to manufacturing to services is natural in any developing economy and it only indicates the improving standard of living of people in the economy.

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## **Chapter 2**

# **The Nature of Services Marketing**

**In this chapter we will discuss:**

- Evolution of Service Firms
- A Different Approach for Marketing Services
- The Services Marketing Triangle
- The Services Marketing Mix
- Key Marketing Issues Before a Service Organization
- New Avenues in Services Marketing

## Services Marketing

How does one market something that cannot be tasted, smelt, heard, seen or touched? All that a marketer is offering while marketing a service is an experience and the satisfaction that results from it.

A service firm differs from a manufacturing firm in that it does not manufacture or offer a product that is tangible in nature. There is no transfer of ownership either. Instead, the service provider performs something for the customer. The service delivers an experience that is intangible in nature. The unique characteristics of services namely, intangibility, heterogeneity, inseparability and perishability, make services different from manufactured goods. The marketing of services and the various activities involved in it are therefore different from the marketing of goods.

In this chapter, we shall attempt to understand the nature of services marketing. The chapter will begin with a discussion on the evolution of service firms and go on to explain how services require to be marketed, in a different context. Then we shall also discuss the other challenges faced by service marketers, the service-marketing triangle and the service marketing mix. Finally, we shall discuss the key marketing issues before a service organization and the new avenues available in services marketing.

### EVOLUTION OF SERVICE FIRMS

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With increasing competition resulting from global changes like liberalization, free trade, etc., the scope for changes in businesses is also increasing. Businesses are forced to make frequent changes in their business models to suit customer needs and match market trends. Otherwise, it would become almost impossible for firms to survive in the ever-changing competitive market.

The service sector is no different from other business sectors. Over the years, the sector has seen an evolution in the type and quality of services offered to customers. Service providers have grown to realize that change is the only constant thing and if they do not evolve with the market, they risk losing market share to their competitors. Increasing competition has made it necessary for service firms to grow from purely selling services to building lasting relationships with their customers. For example, Southwest Airlines is a company with the philosophy of developing lasting relationships with its customers. All advertisements, brochures etc. of Southwest Airlines refer to the customer with a capital 'C', which indicates the company's focus on the customer.

The fierce competition in all sectors of the service industry, be it insurance, healthcare, banking and financial services, investment and brokerage services, food and hospitality, education, entertainment or transport services, has made it necessary for service providers to find ways to differentiate themselves from their competitors and offer customers the best value for their money. Service firms have thus realized the importance of incorporating the goal of total customer satisfaction into their corporate philosophy.

While service firms in the earlier days gave very little importance to segmentation, customer satisfaction, new product development, service quality and other such service aspects, today's firms stress on these aspects to enhance customer satisfaction and develop business. Further, service firms did not pay due attention to service quality earlier. However, today they emphasize on service quality by assuring the customer of their commitment to address instances of less than perfect service quality. The assurance of the best quality service by firms is in the form of guarantees or refund of money or compensation in the event that the customer is dissatisfied. For example, Domino's Pizza promises that it will offer its pizza free if it is not delivered at the customer's doorstep within 30 minutes of the order being placed. Service firms are also ensuring that the firm's commitment to total customer satisfaction is conveyed to the customer. By doing so, service firms hope to attract new customers while retaining existing ones.

## **The Nature of Services Marketing**

The evolutionary changes that have taken place in service firms can be understood better by considering the example of IT service companies. The evolution of companies in this sector of the service industry took place in tandem with changes in the business environment. The service business in the IT industry began with firms offering services centered on products. The product services, as they were called, came into existence with the development of the first integrated circuit. The two kinds of firms offering product services were the service arm of product companies and other independent service firms. These services also included product maintenance services centered on IT-related products, either hardware or software.

With changes in the business environment, from a product-centered environment to a client/server IT environment, service firms evolved accordingly from product services to system services. This was in response to the need of businesses for service providers who could bring together different vendors and products and who could provide support services for products of various companies. They were also expected to address the client's needs, like LAN/WAN management, web integration and Desktop management.

The convergence of IT and business processes that followed the client/server IT environment led to the demand for business services. Businesses today desire to know what investment is required to maximize business value and they look towards service providers to give them the answer. The companies' objective of enhancing their business functionality makes them seek service providers who can efficiently integrate technological know-how with a deep understanding of the various business processes and functions. Thus, service providers having an in-depth understanding of various business functions such as finance, marketing, HR and logistics, stand to gain and can reap handsome profits by offering their services to these companies.

### **A DIFFERENT APPROACH FOR MARKETING SERVICES**

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The unique characteristics of services make it essential for service marketers to adopt a different approach for marketing services. Some of the features of service organizations and their functions also have an impact on marketing services. These features include:

- narrow definition of marketing by service providers
- lack of appreciation for marketing skills in service organizations
- difference in organizational structure of service firms
- problems in determining costs for pricing of services
- constraints and opportunities for not-for-profit service organizations.

### **Narrow Definitions of Marketing**

Earlier, service marketers had a very narrow definition for marketing and considered it a function that consisted only of advertising, sales promotion and public relations. Very few extended this definition to include sales and market research as well. Other marketing activities such as segmentation, positioning, customer service, service differentiation, new product development, emphasis on service quality etc. were not paid adequate attention by service marketers.

Segmentation of services was very rare. The only segmentation that took place in services marketing was based on the product being serviced. Similarly, service firms did not lay any emphasis on customer relations and marketing efforts by employees. The employees were rarely trained to carry out these functions. This was quite evident in the lack of empathy displayed by employees working in the sector, especially in banks, telecommunications, postal services etc. The fact that most of these services

## **Services Marketing**

were in the hands of the government, and monopoly ruled high, also contributed to this trend. However, service firms are now gradually realizing that employees, especially the front-line staff, can play a vital role in marketing the services of a firm. Personnel in almost all banks are now required to involve themselves in marketing activities as part of their regular job duties.

### **Lack of Appreciation for Marketing Skills**

Unlike in manufacturing companies, there is a lack of appreciation for marketing skills in service firms. In service firms, the marketing function is less structured than in manufacturing companies. Even though a marketing department exists in some service firms, the marketing activities of most firms are likely to be assigned to other departments in the company. For example, in service firms, advertising and promotion activities are most often handled by some other department, like the production department.

There is less emphasis on sales training and sales activities in service firms, unlike in manufacturing companies.

Further, most service firms do not have a planned approach to public relations and publicity and even if they do, these activities are the responsibility of the marketing department or some other department in the company. The emphasis given to public relations and publicity programs in service firms differs from that in manufacturing firms. In the latter, the number of firms that lack a planned approach to public relations and publicity programs are likely to be more than twice the number of service firms, which are similarly lacking. However, the number of manufacturing firms that approach external sources for creation of such programs is likely to be double the number of service firms, which do so.

Giving inadequate importance to various marketing activities in service firms makes it difficult for service marketers to control activities and tends to reduce the effectiveness of the marketing efforts.

### **Different Organizational Structures**

The traditional pyramidal organizational structure – narrow at the top (the top management level) and wide at the bottom (the level containing the customer-contact personnel) – tends to be bureaucratic in nature due to the presence of several hierarchical levels. In such an organizational structure, the top management frames the strategies, which are then implemented by personnel at the lower levels. Employees at the lower levels, who are in direct contact with the customers, lack both the power and the ability to take quick decisions. Thus, the greater the number of levels between the top management and the customers, the greater is the scope for delay in decision-making, thereby leading to customer dissatisfaction. Taking these constraints into consideration, service firms have realized the need to have a reverse pyramid organizational structure. In this type of organizational structure, the customer-contact personnel are located at the top and the pyramid narrows down to the top management level. The part of the organization structure that has the customer-contact personnel is where the service encounter takes place. Thus, in the traditional organizational structure, the top management level determined the success or failure of a firm's strategy, whereas in the modern organizational structure, it is the customer-contact personnel who determine the success or failure of the firm's strategy.

### **Problems in Determining Costs for Pricing**

The heterogeneous and intangible nature of services makes it difficult to determine the pricing of a service using the cost-based strategy. It is difficult to estimate a unit of a service. Therefore, it is even more difficult to establish the per unit cost of the service.

**Exhibit 2.1**

**Price as a Marketing Criterion in the Aviation Industry**

In the aviation industry, price serves as a crucial factor to segment the market into low-cost segment and business/premium service segment. Low fare 'no frills' airways such as Virgin Express Europe and Easyjet, which depended on direct marketing for their business, changed industry dynamics with their emphasis on the 'efficiency operating model' (implemented by Southwest Airlines in the US). They successfully operated at lower costs than major airlines such as Lufthansa and British Airways. The advantages of these low cost airlines for travelers and airline companies were:

- On time departures and short distance journeys
- Use of airports located close to cities, which was very convenient for passengers
- Absence of travel agents due to electronic ticketing and direct bookings lowered the distribution costs of these airlines, which in turn brought down the cost of their operations. Their distribution costs were 30% less than those of the traditional airlines because of the extensive use of the Internet
- More seats and the absence of additional facilities such as seat assignments and videos reduced the cost to a great extent
- Simplified maintenance of aircraft due to standardized fleet
- Fast gate turnarounds enabled these airlines to report better aircraft utilization rates

Due to the above advantages, low cost airlines could beat traditional airlines on the price plank.

*Source: 'Industry Note – A Brief Profile of the Global, European and German Aviation Markets,' ICAFI Center for Management Research.*

Confusion regarding the pricing of services often prevails among customers too. The price split-up and the actual cost of the service is often not clear to customers and leaves them wondering whether they received the true value for the price they paid. Further, the usual pricing methods available to marketers do not suggest any technique to set a price for the skill, expertise and value that are involved in a service. This makes it all the more difficult for marketers to establish a value-based pricing of the service.

The price plank has been successfully used by airline companies to market their services to customers. Exhibit 2.1 describes how low-cost airline companies use price as a factor to market their services to customers.

**Constraints and Opportunities for Not-for-Profit Organizations**

Not-for-profit organizations operate based on funding from government, corporations and individuals. Some of these organizations generate revenues from marketing relationships and by conducting commercial programs as well. They face several constraints in their efforts to market themselves, but also have many opportunities to do so.

The major constraints faced by not-for-profit service organizations are funding and lack of adequate and appropriate infrastructural facilities. Constraints such as these make it difficult for these organizations to improve their operations and functioning. This in turn has an adverse impact on the effectiveness of these organizations to deliver quality service.

There are a large number of opportunities to establish and operate not-for-profit organizations in sectors lacking government funding. Such organizations can be successfully established and operated in the sectors of education and research, health,

## Services Marketing

social services, culture and recreation, environment, development and housing, etc. Thus, service organizations with a not-for-profit objective can offer and market their services in these areas.

### Other challenges

Besides the challenges discussed above, service marketers have to face some others. The technological changes and market reforms that took place in the 1980s and 90s transformed the once staid and stable service industry into an active and competitive sector. For example, the opening up of the insurance sector in India in 1999 paved the way for the entry of foreign insurance companies into the country. This forced state insurers like LIC and GIC, who were monopolies until then, to spruce up their act and become competitive to survive in the business. Customer service, which was not so important until liberalization, became the focus of all industry players. Promptness and quality of service were emphasized by every company, even as supplementary services were being added to achieve enhanced customer satisfaction.

Being intangible in nature, services cannot be touched, smelt, seen or tasted. This makes it difficult to market a service due to the difficulty in making the customers conceptualize the service. This intangibility also makes it difficult and often impossible for the customer to evaluate the service before its purchase. Many times, the customers are unable to evaluate the service even after purchasing and consuming it.

The intangibility and heterogeneity of services make it difficult for service marketers to patent them.

Another challenge that arises due to the heterogeneity of services is the difficulty in standardizing the service and ensuring quality control. Since services are delivered by people whose efficiency and productivity may vary from one another and over time, it is not possible for service marketers to ensure consistent quality in service delivery.

## THE SERVICES MARKETING TRIANGLE

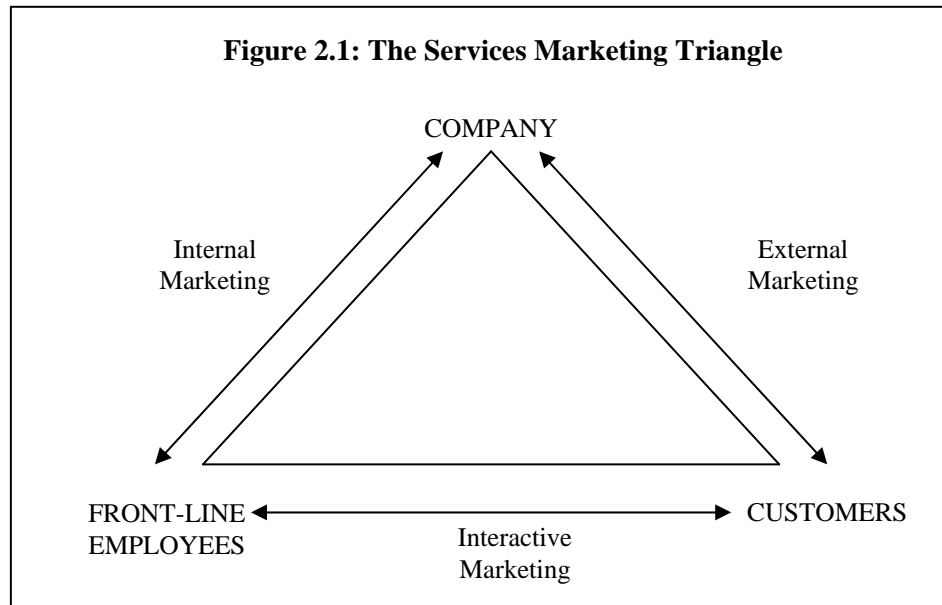
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The services marketing triangle consists of the three components of the service delivery process, namely the company, the front-line employees and the customers. In the service industry, customers become a part of the service delivery process due to the inseparability characteristic of services. Both production and consumption of a service takes place simultaneously.

In the services marketing triangle, the company, front-line employees and the customers make up the three corners of the triangle (Refer to Figure 2.1). The interactions that take place between the company and its customers constitute external marketing through which the company promises to deliver quality service to customers. The company communicates information about its products and services to the external customers by means of marketing communication mix comprising advertisements, sales promotion, personal selling, direct marketing and public relations.

The interactions between the company and the front-line employees constitute internal marketing, by means of which the company enables its employees to deliver quality service to customers. Internal marketing is the process of communicating information about the company's products or services to employees of the organization.

Any service organization, in order to achieve its marketing objectives, has to first communicate with its internal staff and convince them of the quality of its services. It should also take feedback from them on a regular basis to improve the service offering.



The internal marketing process makes use of tools such as newsletters, video shows, staff forums, presentations, etc. to communicate information about the company's services to its employees. Thus, internal marketing is similar to external marketing, except that the company has to market its services to its own employees. Thorough knowledge of the company's services, competitors' strategies and market conditions gives confidence to employees, especially the front-line staff, to market the services.

The third type of interaction and the most important one that eventually determines customer retention by service firms is interactive marketing that takes place between the front-line employees and the customers. Interactive marketing refers to the mutual exchanges that take place between front-line employees and the customers before, after and at the point of sale. The exchanges can take the form of information about the product or service or may even be a physical or monetary exchange. Interactive marketing elicits responses from the customers, which helps the company improve the value it delivers to the customer in the form of a product or service. Thus, interactive marketing is essentially a value creation process.

Thus, all three – internal, external and interactive marketing – play an important role in services marketing and neglecting any of these will result in the failure of a service organization in achieving its marketing goals.

## THE SERVICES MARKETING MIX

As has been discussed earlier, services differ from goods in that they have certain unique characteristics such as intangibility, perishability, inseparability and heterogeneity. These characteristics make it necessary to differentiate the marketing mix for services from the one for goods. The marketing mix for services is an extension of the marketing mix for products and goods, as a few more elements are added. In addition to the 4 P's (product, price, place and promotion) that comprise the traditional marketing mix for products and goods, the marketing mix for services consists of 3 more elements, namely, people, physical evidence and process, to cater to the unique needs of services marketing. Thus, the marketing mix for services is considered to consist of 7 P's – product (in this case, the service), price, place, promotion, people, physical evidence and process.

## **Services Marketing**

In this chapter, we shall examine the three additional P's of services marketing – people, physical evidence, and process.

### **People**

The term 'people' refers to all those persons who are involved in the production and consumption of a service. They include the front-line employees of a service organization and the customers purchasing the service. For example, the first interaction that any individual has with a company is through the receptionist who answers the telephone call. If the receptionist is rude to the customer, it creates a poor image of the company in the customer's mind. Thus, recruiting people with the right attitude is extremely important in service organizations. This is more so because the customers do not purchase a product, but an experience. This philosophy forms the basis of selecting personnel in Southwest Airlines, known for its fun culture and friendly service personnel.

It is important to not only recruit the right personnel but also train, motivate and develop them so that they offer consistent quality service to customers. Therefore, service organizations should also emphasize training their service personnel in new skills and using them to attract and retain customers. Service personnel should be rewarded and motivated for positive actions to encourage such behavior. This further improves the quality of service offered to customers.

In services marketing, customers become a part of the service delivery process due to the inseparability of service production from its consumption. Unlike product marketing, where customers passively consume the product, they play an active role in services marketing right from generation to consumption of the service. Further, the customers of the company as well as those of competitors play a role in the marketing of services. This is because there is a lot of scope for customers to influence one another through word-of-mouth publicity. The achievement of marketing goals in service organizations, therefore, depends largely on the human element involved.

### **Physical Evidence**

The intangibility element associated with services makes it difficult for customers to evaluate the quality of a service. Hence, marketers in service organizations, in their attempt to offer something tangible, provide the customer physical evidence of the service offered. Physical evidence includes tangible accompaniments to the service like the uniforms worn by the staff of the service organization, the ambiance in the lobby of a hotel, reports and brochures, business cards, displayed certificates of service quality or appreciation etc. Delta Airlines for example, in its effort to strengthen its brand, hired the services of a reputed fashion designer to design a new uniform for its flight attendants and gate personnel. By creating tangible attributes of something as intangible as services, service organizations facilitate customers' evaluation of the service quality, and create a service experience.

### **Process**

Process management in services is essential to ensure consistent quality of service delivery. Process involves transforming a certain input into the desired output. It is the process of delivery that differentiates one service firm from another. For example, courier company FedEx differentiates itself from its competitors based on its delivery process. It promises prompt and perfect delivery to customers at all times of the year. This confidence is founded on an efficient delivery process developed by the company that encompasses various stages, right from collecting the parcel, to maintaining a database, to tracking the parcel continuously and delivering it at the right place in time.



The efficiency with which the service delivery process is executed determines the quality of the service. The quality of service will in turn determine its value and customer satisfaction. Thus, in order to ensure customer satisfaction, service organizations must ensure that right steps are taken in the right direction and that right tools and techniques are used at the right time, so that the customer enjoys a unique service experience.

### **KEY MARKETING ISSUES BEFORE A SERVICE ORGANIZATION**

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The unique characteristics of services, namely intangibility, perishability, heterogeneity and inseparability, present certain key marketing issues before a service provider. These include

- managing differentiation among services
- managing productivity
- managing service quality

These are discussed below.

#### **Managing Differentiation**

The intangible nature of services makes it difficult for service providers to differentiate themselves from their competitors on aspects other than price. Services such as recreation (theatres, game clubs, theme parks, etc), transportation, personal care (beauty parlors, dentists, medical care, laundry services, etc), food and hospitality (hotels and restaurants), financial services (insurance companies, banks, brokerage services, etc), business services (consultancies, law firms, advertising agencies, etc) and repair services, need to differentiate themselves from other service providers in the same business.

Although intangibility is an inherent characteristic of services, some service businesses have a tangible element associated with the service. The service provider needs to carefully identify the tangible element of his business on which he can differentiate his business from that of his competitors. The following tangible elements may be used to differentiate service businesses:

1. Service premises
2. Packaging
3. Service personnel
4. Tools and equipment used
5. Customers
6. Convenience
7. Name of the service establishment

#### **Service premises**

The appearance of the service premises deals with the set-up and environment in which the service is provided. This aspect is more important in those services where the customer has to approach the service provider to avail of the service. Service providers therefore try to differentiate themselves from their competitors on this aspect by stimulating the visual, olfactory, tactile and auditory senses of the customer.

Service providers try to project the desired visual image of the firm using the décor of the establishment. Décor includes the furnishing, upholstery, carpeting, lighting and the signs used in the service establishment. The use of the right type, style and color

## **Services Marketing**

of furnishing, upholstery and carpeting helps service providers differentiate themselves from competitors. This gains greater importance in the hospitality industry, where customers spend some time in the premises of the service provider.

The lighting used in the service establishment is another aspect on which differentiation of the service business is possible. The extent of glare produced by the lighting as well as the level of lighting plays a role in creating the desired visual impact on the customer. For example, a brightly lit financial institution would impress a customer more than a staid and poorly-lit one. Signs used on the premises are yet another variable that affects the décor of the place. Signs may be used by a service establishment either to identify the business or to direct the customer within the premises. Signs used to identify a business may be in the form of neon signboards and play a role in creating the first visual impression of the firm.

In addition to the visual aspects, auditory, olfactory and tactile environment of the service firm, help service providers differentiate themselves from their competitors. Service providers use piped music or artificial sounds, like the sound of a waterfall, to provide a pleasant experience to customers. Service firms such as shopping centers, restaurants, hotels and dental clinics use piped music to offer a pleasant service experience to customers.

Stimulation of the olfactory senses of the customer is another way for service providers to differentiate their service offering. While unpleasant odors serve to drive away business, pleasant smells in the service premises give the customer a pleasant service experience. Service firms try to ensure that there is fragrance on their premises with the help of proper ventilation and by using fresh flowers or artificial fresheners like room-fresheners, incense and perfumes.

The floor plan or layout of the firm and the standard of housekeeping are also factors that determine the service quality. Service firms can use floor plan or layout to express their concern for the convenience, health and safety of the customer. Providing facilities such as escalators, elevators and ramps for the physically handicapped helps service providers differentiate themselves from competitors who fail to provide these conveniences to customers. Further, the use of open floor plans and enclosed or departmentalized floor plans help service providers to create the desired image for the firm. While open floor plans promote a feeling of openness and informality, enclosed floor plans give rise to a feeling of exclusiveness, privacy and formality. The standard of housekeeping observed in the firm is conveyed by the cleanliness, orderliness and hygiene maintained on the premises.

### **Packaging**

Though services are intangible in nature, service providers can differentiate themselves on the basis of packaging service. For example, the type of bags used by a dry-cleaner to deliver clothes to the customer reflects its style of differentiating itself. Likewise, the use of leather folders by a consulting firm to deliver their reports to clients is another example of the use of packaging in differentiating a service. Restaurants providing parcel facilities differentiate themselves based on the type of material used for packing the food, the attractiveness of the shape and design of the package, and the customer and trade convenience in handling the package.

### **Service personnel**

The appearance and grooming of the employees of a service firm and their behavior help the firm to differentiate itself from its competitors. Service firms may improve the appearance of their employees using a well-designed uniform or a specific dress code. They may also improve the appearance and grooming of their employees by establishing standards related to their age, height, weight, hair length, personal hygiene and make-up. Such standards are strictly observed in the airline industry. For

## **The Nature of Services Marketing**

example, in Air India, airhostesses who are overweight are not allowed to fly. In addition, in order to present young and beautiful women as the face of Air India, the company does not allow airhostesses above 50 years of age to fly and instead assigns them ground duties. However, such standards for the employees in service firms may sometimes be perceived as an invasion of privacy.

Further, the mannerisms of service personnel in the form of courtesies, and their behavior with customers help differentiate the service business. McDonald's is the best example of a company that differentiates itself on the basis of the behavior of its service personnel. In addition to maintaining uniformity among its service personnel in terms of age, McDonald's also ensures uniformity in the service delivered to its customers by making the employees follow a scripted procedure in performing every task involved in the job. Such tasks include assembling the orders, arranging the food on the tray, collecting the money and giving back the change, and even thanking the customer.

### **Tools and equipment used**

Service firms may differentiate themselves on the basis of the quality, quantity and sophistication of the tools and equipment used to provide the service. These reflect the efficiency and expertise of the service provider and serve as good differentiators. For example, a photo studio may use sophisticated color-printing technology and the latest equipment to provide a better finish to the photographs processed in the studio.

### **Customers**

A service firm can differentiate itself from its competitors on the basis of its customers too. For example, some hotels satisfy and cater to a distinct class of customers, such as business executives, by providing them an environment of exclusivity and companionship of peers. This form of differentiation by service firms addresses not only the physical needs but also the psychological needs of the customer. Restaurants and clubs, which bar certain type of customers (singles, couples with children), are another example of this kind of differentiation.

### **Convenience**

Service firms may differentiate themselves by taking the service to the customer, offering convenient terms of sale etc and providing convenience to the customers. By taking the service to the customer, the service provider helps save the customer's time and provides him with a pleasant service experience. For example, supermarkets like Food World, which take orders over the telephone and provide home-delivery of the goods, are an example of this form of differentiation. Courier services are another example of this form of differentiation. Courier services such as First Flight, Blue Dart, and DTDC offer customers the convenience of picking up the consignment from the customer's residence or office. Automobile repair services which offer their services at the customer's location are another example of taking the service to the customer.

### **Name of the service establishment**

The use of personal names by a service firm helps to convey the impression of personalized attention and service to its customers. For example, the use of names such as The Leela Kempinski for a hotel conveys a feeling of personalized service. The name of the service establishment should be unique, distinct, easy to read, remember and pronounce. Further, the name of a service firm should convey the intended feeling regarding the service. Exhibit 2.2 describes the role that the name of a service establishment can play in creating the intended feeling in the customer regarding the service.

### Exhibit 2.2

#### What is in a Name?

In the fast-food sector in UK, the 'Golden Arches' of McDonald's have competition in the form of a small Indian restaurant named Tiffin Bites. The restaurant has five outlets in UK, which bring in revenue of 6 million pounds from the Indian food they serve. The restaurant competes with the well-known mega player McDonald's by offering Indian food in eat-in or take-away packs. The name of the restaurant is distinctively Indian and conveys what to expect in the service. The food is packed in the characteristic tiffin style in three tubs, placed one on top of another. By offering its customers good quality, low-fat Indian food within five minutes of placing the order, and packed in a distinctive form, the firm has managed to make a place for itself in the weekly lunch menu of customers.

*Source: Adapted from Murphy, Claire, 'Tiffin Bites,' Marketing (UK), 05 June 2004, p 25.*

## Managing Productivity

Managing productivity in service organizations is a difficult task due to the multifunctional nature of service jobs. For example, in a fast-food outlet, the service personnel perform various tasks which include preparing the food (production), delivering the food to the customers (retail service), ensuring that the customers have an enjoyable eating experience (customer service), and accepting payment and tendering the change (transaction processing). Inventory management and routine maintenance of the premises may also be a part of the job in some instances. The multifunctional nature of their job makes measuring, monitoring and improving the performance of the personnel in service organizations a complex task.

## Managing Service Quality

Increasing competition in the service sector has made it essential for service providers to ensure consistent service quality to survive and prosper. Ensuring the delivery of quality service helps a service provider gain a competitive advantage over others in the business while increasing the profitability of the firm.

The intangibility, heterogeneity and inseparability characteristics of services make it difficult to control the service quality since the service cannot be tested, measured and verified for accuracy before delivering it to the customer. Managing quality in service firms requires an understanding and identification of the service characteristics that make it difficult to control service quality. This needs to be followed by designing a flowchart of the various processes involved in delivering the service in order to identify and rectify the points of service failure.

Identifying service failure points and taking corrective measures allows the service provider to ensure customer satisfaction. For example, in hospitals, feedback on the quality of service is taken from patients who have been discharged. This allows the hospital administration to determine which departments excelled in providing quality service and which failed. Knowledge of this aspect of service quality allows hospitals to take corrective steps to ensure quality service to other patients. Such quality checks are also common in the hospitality sector, where guests leaving the hotel are asked for feedback regarding the quality of service received during their stay.

## NEW AVENUES IN SERVICES MARKETING

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Service providers are seeking new ways to attract new customers by promising them a delightful service experience. In trying to do so, service firms are being as innovative as they can. For example, Malaysian Airlines, in its search for new avenues to

**Exhibit 2.3**

**IBM's Response to Customer's Demand for Services**

IBM's desktop management services are aimed at relieving its clients of the burden of patch management, and keeping track of anti-spam and anti-virus solutions. The launch of these services by IBM is in response to its clients' demand for services at a component level. It is expected that the clients will be able to experience a cost reduction of at least 30% by opting for IBM's desktop management services.

IBM'S clients consist of several well-known names. IBM provides them the flexibility to select services to address their unique problems rather than having to purchase the entire suite of services. In addition to this, the client also has the flexibility to purchase add-on services to meet the growing requirements of business.

Managing IT security requires full-time attention and therefore client companies prefer to outsource this activity to a third party service provider such as IBM. Companies like IBM effectively address these needs of client companies. This relieves the client companies of the burden of having to safeguard their network resources by constantly keeping a watch for virus patches.

*Adapted from Sheikh, Fawzia, 'IBM: We'll take your spam, viruses, patch management,' Computing Canada, 14 May 2004.*

enhance the service experience of its customers, came up with the idea of the Malaysian Airlines Travel Fair, during which the airline offers its new products and services to customers. The fair provides the customers an opportunity to plan their air travel and vacations at the most competitive price.

Trade shows and trade fairs serve as avenues for companies to attract customers and generate new leads. They also allow companies to build relationships with existing customers, who visit these venues to find out about new products or services being launched.

The rapid growth of the Internet has served as yet another avenue for service firms to market their services and compete with others in the business. Service firms can make efficient use of the Internet and build a strong presence for themselves on the World Wide Web. Access to information, flexibility and business efficiency in using the Internet to conduct business encourages service firms to use it as a tool to build a competitive advantage for themselves.

Information technology has become an integral part of our lives, whether at home or at work. Both individuals as well as businesses have become dependent on IT functionality and reliability for the smooth functioning of their personal or professional life, as the case may be. In case of businesses, having a reliable IT infrastructure has become indispensable for running the business and for earning profits. Thus, in the years to come, there is expected to be a growth in demand for data recovery services and mission critical network services. Further, with the rapid growth in the use of the Internet for transaction processing, a rapid growth in security-type service offerings is also envisioned. This provides an avenue for service firms to offer more specialized security-based services to their business clients. Exhibit 2.3 describes the specialized services offered by IBM to serve the business needs of its clients.

Lastly, the increased demand for greater mobility will pave the way for service providers who are able to deliver specialized applications that are compatible with devices such as mobile phones, personal digital assistants (PDAs) etc.

### SUMMARY

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A service firm, unlike a manufacturing firm, does not manufacture but rather performs something for the customer. It delivers an experience that is intangible, heterogeneous, inseparable and imperishable in nature. Thus, marketing of services is different from the marketing of products and goods.

Service firms have evolved over the years along with the evolution that took place in the business environment in which they were operating. The evolution of service firms has been largely in response to the fierce competition in the service industry and realization of the need to incorporate the goal of total customer satisfaction into corporate philosophies. This has become essential for firms to survive and prosper.

The unique characteristics of intangibility, heterogeneity, inseparability and perishability, as well as the distinctive features of service firms such as lack of appreciation for marketing skills, narrow definition of the marketing function, a different organization structure, difficulty in determining costs for pricing the service, and constraints and opportunities in the not-for-profit sector have made it necessary for service marketers to adopt a different approach for marketing services.

The services marketing triangle depicts the relationship between the three components of the service delivery process, namely, the customers, the front-line employees, and the company. The interactions that take place among these three components comprise external marketing, internal marketing and relationship or interactive marketing, respectively.

The services marketing mix is the mix of marketing elements that help service firms to successfully operate the business. In addition to the 4 P's of marketing goods (product, price, place and promotion), service firms are characterized by three additional P's, namely people, physical evidence and process. The key marketing issues that face any service firm relate to managing differentiation, managing productivity and managing quality. The rapid changes in technology and the business environment have served to provide new avenues for service marketers to market and differentiate themselves.

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**Part II**

**The Customer Experience**

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## **Chapter 3**

# **Consumer Behavior**

**In this chapter we will discuss:**

- Differences Between Characteristics of Goods and Services
- Consumer Decision Making Process
- External Factors Influencing Consumer Behavior
- Implications for Service Providers

## Services Marketing

*“If the customer is faced with two equivalent products, the reason he chooses one over the other is service. The promise of excellent service is how you win new customers and clients. What many of us forget, however, is that the continued delivery of that service is how you keep clients. It’s good business. In the long run, it costs a lot less to hold onto existing clients than to find new ones.”*

**-Mark H. McCormack, American sports marketing consultant, founder and CEO of International Management Group.**

The service sector has grown significantly over the last two decades. The global economy has shifted from an industrial economy to a service economy. Even product-oriented companies like GE have shifted their focus to services. GE, the world’s most reputed company in manufacturing products such as light bulbs, locomotives, jet engines, medical imaging equipment, turbines and consumer appliances, now projects itself as a service company that also manufactures products. Over 75% of GE’s sales volume comes from services. The service sector contributes the largest share of a country’s GDP. This is true not only for developed countries such as the United States but also for developing countries like India and China. Services generate about three quarters of the employment in developed countries such as the United States, UK, Canada and Australia. In India, the service sector contribution to GDP rose from 28% in 1947-48 to 54% in the year 2000-01.

The emphasis on services by companies across the world has led to a growth in the expectations of customers today. The customer of today seeks customized services at his doorstep and is himself involved in defining the kind of service he expects. Further, he expects organizations to deliver the services quickly and is ready to pay for the speed of a service. The purchase decisions of customers are not made in isolation, but rather, they are influenced by environmental factors such as culture, social class, family and other institutional factors.

What is consumer behavior? Consumer behavior is defined as the actions or beliefs that guide a person to purchase and consume a product or service. The study of consumer behavior requires inputs from various disciplines such as sociology, psychology and economics. Consumer behavior deals with the study of the factors that influence a customer in purchasing a product/service, and the process that he/she goes through, to evaluate the product/service prior to and even after its purchase and use.

The main challenge for a service provider is to tangibilize the intangible characteristic of services. Offering customized and quality services is another challenge for service providers of today. Technological advances in the new millennium have helped service providers to offer customized services to their customers.

In this chapter, we discuss the differences between the process through which a consumer evaluates goods and the one he/she uses for evaluating services. We examine each step involved in the consumer decision-making process and the environmental factors that influence consumer behavior.

## **DIFFERENCES BETWEEN CHARACTERISTICS OF GOODS AND SERVICES**

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Different goods and services have varying magnitudes of search, experience and credence (SEC) qualities. The search qualities of a good or a service can be estimated before the purchase while the experience qualities can be evaluated only after purchase and consumption. The qualities that cannot be assessed completely even after the purchase and consumption of the good or service are called credence

qualities. These three kinds of qualities form the basis for differentiating between the consumer evaluation process for goods and services. Parasuraman, Zeithaml and Berry, in their article “A Conceptual Model of Service Quality and its Implications for Future Research”<sup>1</sup>, outlined ten dimensions of service quality and categorized them under the search, experience and credence qualities as shown in Table 3.1 below.

**Table 3.1: Dimensions of SEC qualities**

Search qualities	Experience qualities	Credence qualities
Tangibility	Access	Competence
Credibility	Courtesy	Security
	Reliability	
	Responsiveness	
	Understanding the customer	
	Communications	

### Search Qualities

A search quality is a characteristic that can be estimated before the purchase or consumption of a product. Goods have a higher magnitude of search qualities when compared to services. Search qualities for goods include attributes such as color, design, style, price, fit, etc. and can be assessed almost completely by a customer prior to his purchase. For example, while purchasing a dress from a boutique, the search quality that the customer would take into account would be the price, the style, the color, and the material of the dress.

The search qualities for services include attributes such as price, convenience, mannerisms of service personnel, and promptness of service. Consider an example of a restaurant offering a home-delivery service. When a customer orders for food to be home-delivered, the search qualities that he would take into account would be the price at which the food is offered, the promptness in delivery and the courteousness of the delivery staff.

As has been already mentioned, when compared to goods, it is often difficult to estimate the search qualities of services before using them as they have high experience and credence qualities due to their intangible nature. For example, in services such as healthcare, legal and consultancy services, the search characteristics cannot be determined before availing the service. The consumer has to rely on factors like the ambience, the behavior of the reception staff and reputation of the service provider etc. On the other hand, tangibility of goods allows consumers to evaluate goods before purchasing them. However, services can be evaluated only while or after availing of the service.

### Experience Qualities

Experience qualities include those attributes of a good or a service, which can be assessed by a customer only after its purchase and utilization. Taste of the home-delivered food and wearability of the dress from the boutique are examples of experience attributes. Services have higher experience characteristics than goods. A passenger traveling by air would rate his travel experience on aspects like courteousness of the cabin crew, departure and arrival time, quality of food, comfort in seating, etc. Exhibit 3.1 gives an example of a domestic airline in India which has won many awards for its customer service.

<sup>1</sup> Parasuraman, A., Valarie Zeithaml and Leonard Berry (1985), “A Conceptual Model of Service Quality and Its Implications for Future Research,” *Journal of Marketing*, 49 (Fall) 41-50.

### Exhibit 3.1

#### Experiencing the Jet Airways' Service

Jet Airways bagged the first-ever BT -Financial Express Business Traveler award for the best domestic airline in India, in February 2004. It was voted as the best in the business class segment, the economy class segment, and for its services. With over 250 flights connecting 41 destinations, Jet Airways has proved to be a good option for a business traveler.

Jet Airways introduced the frequent flier loyalty program named JET Privilege (JP). As part of this program, passengers earn points in the form of JP Miles whenever they fly by Jet Airways and can avail of discounts against these points even when they use the services of its partners such as British Airways and KLM. Further, passengers can also earn JP Miles when they use the services of Jet's partner hotels, car rentals, cellular operators, etc.

Jet Airways services include providing assistance to mothers of infants, wheelchairs for the physically challenged, medical assistance during the flight, magazines for young kids, and taking full care of unaccompanied minors. Passengers of Jet can receive alerts about departures, arrivals, and the status of their flight on their mobile phones. Passengers can also reserve their tickets and check their status online. Jet Airways believes that its customers should view its services as not just a means to reach their destination, but as a delightful experience of traveling.

*Adapted from [www.jetairways.com](http://www.jetairways.com) and "FE Business Traveler Awards Adorn Top Performers in Hospitality, Services", Financial Express, February 8<sup>th</sup> 2004.*

## Credence Qualities

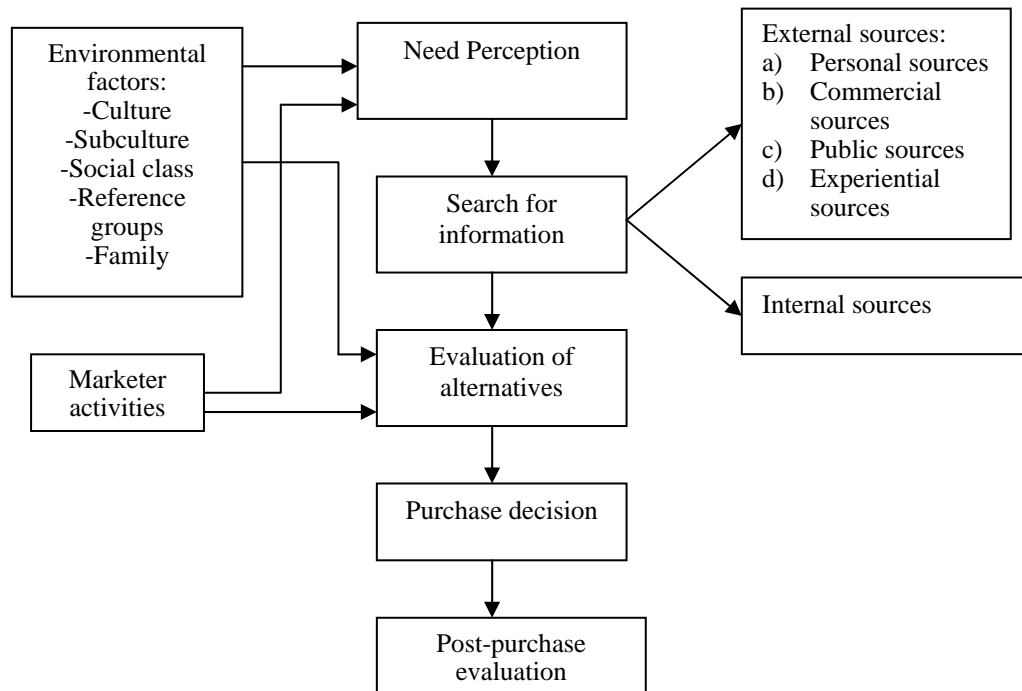
The qualities of a product or a service that are difficult to assess even after its purchase and consumption/utilization are referred to as credence qualities. This is because customers often lack the necessary experience or knowledge to assess the credence qualities of products or services. For example, though the manufacturer of a certain brand of breakfast cereal may claim that it contains various nutritious ingredients, it is very difficult for the customer to ascertain whether these ingredients are actually present, even after consuming it. Thus, it is difficult to assess the credence quality of the cereal.

Taking the example of the home-delivery service stated earlier, some customers would assess the credence quality of the food delivered, on the basis of the eco-consciousness of the service provider. The use of organically grown vegetables in the food delivered by the service provider adds to the credence quality of the service, but can never be determined by the consumer.

Services have more credence qualities than goods. These qualities are high for services because most often they are offered by professionals and experts and involve intellectual capital. For example, services offered by doctors and consultants are high in credence quality because the people who can deliver these services require specialized knowledge and most often these services are accepted on faith. After gaining an insight into the different evaluation criteria for goods and services, let us now proceed to discuss the consumer decision-making process in general, with particular emphasis on services.

## CONSUMER DECISION-MAKING PROCESS

The buying process by a consumer is triggered by his specific needs. The consumer's decision-making process basically involves the following steps. For both goods and services, these steps remain the same, though the order of the steps may differ.

**Figure 3.1: Consumer Decision Making Process**

1. Need perception
2. Search for information
3. Evaluation of alternatives
4. Purchase and consumption
5. Post-purchase evaluation

These steps in the consumer decision-making process along with the factors influencing the process are shown in Figure 3.1.

### Need Perception

A consumer may feel the need to purchase a product or service when there is a difference between the actual state and desired state. For example, a consumer who is hungry feels the need to buy lunch and remove his hunger. Further, a particular need may arise due to consumer's perception or due to marketer activities. For example, an individual who never thought of buying a car may perceive the need to buy one, when he sees his colleague or neighbor buy a car. Similarly, a marketer's activities through various promotional channels can erase a customer's perception that buying a car is an expensive affair, which might eventually make him feel that he too needs a car. The best example is the Maruti advertisement, which says that the monthly EMI on a car loan from the company is "only Rs.2599", which gives the customer, a feeling that it is quite affordable.

### Search for Information and Perceived Risk

Once a need is felt, a customer decides to purchase a product/service to fulfill his need. In order to make the right product/service choice, a customer needs to search for information regarding the product/service that would fulfill his need.

## Services Marketing

### Search for information

Compared to the purchase of a good, the purchase of a service does not allow a customer to return the service to the service provider if the service fails to meet his expectations. Further, since services embody more experience qualities than search qualities, information pertaining to services is not readily available.

Information can be collected either from internal sources or from external sources. Internal sources include information retrieved by the customer from his memory, pertaining to his previous experiences of buying the product/service. External sources include personal and non-personal sources. In the case of services, customers opt for external sources of information only if an internal source of information is not available or is not sufficient for him to take a decision. The external (personal and non-personal) sources of information include:

*Personal sources:* friends, family, neighbors, etc.

*Commercial sources:* dealers, salespeople, point-of-sale displays, retailers, advertising, etc.

*Public sources:* television, newspapers, consumer organizations, radio, magazines of interest to consumers, etc.

*Experiential:* product-trial, observing, handling, examining, etc.

In services, people prefer to rely on personal sources of information rather than external sources, since these provide information on search as well as experience qualities of the service. On the other hand, a non-personal source of information that determines experience qualities is not easily available. Yet another problem in services is that experts like doctors, chartered accountants and lawyers are not allowed to advertise their services (however, we see quite a few hospitals and consultancies advertising their services). In such a situation, the consumer has to rely on personal sources of information and on his own experience, or has to search for information from external sources.

### Perceived risk

A perceived risk is involved in all customer purchase decisions. Perceived risk is the uncertainty faced by consumers when they cannot assess the post-purchase consequences before purchasing the product/service. The intangibility characteristic of services makes the customer's perception of risk higher in the case of services, than for goods. There are six types of perceived risks, namely:

*Financial risk:* The risk faced by a consumer when he needs to pay for the product or service from his own resources. For example, the decision to buy a second-hand car (cheaper but possibly over-used), and the decision to host a party in a high-class restaurant (pay for an expensive but possibly not-so-tasty meal), both involve financial risk.

*Functional risk:* Functional risk in the case of products is the risk faced by the customer that the product he has purchased may fail to function according to his expectations. For example, when a customer purchases a new bike, there is a functional risk involved that it may not give the mileage that the manufacturer promises. In the case of a service too, there is a functional risk that the service may not deliver the results that the service provider has claimed. For example, a student's decision to join a coaching institute for civil services involves the functional risk that the student may not be selected for the civil services despite having undertaken coaching for it.

*Physical risk:* Physical risk involves the risk to the physical safety of the customer by using the product/service. For example, when a customer purchases a pressure cooker,



the decision involves a physical risk that its use may result in an accident. As an example of physical risk involved in consumption of services, employing the services of an eye surgeon for correction of vision can be a good example, as the patient may be at the risk of losing his sight after undergoing the operation.

*Psychological risk:* Psychological risk is the risk of causing harm to one's self image by making a bad product/service choice. For example, the experience of a young couple hiring the services of a baby sitter for their baby involves psychological risk. Further, they would be worried about the well-being of their child and the effects of hiring a baby sitter on the young mind. Similarly, in case of products like alcohol or cigarette, first-time users will experience psychological risk of getting addicted to them. However, there is also an element of physical risk also involved in this case.

*Social risk:* This is the risk of having to face social embarrassment as a result of making a poor product/ service choice. For example, a customer's decision to purchase a dress that does not suit her personality involves a social risk. Similarly, when a customer decides to approach a psychiatrist for treatment, this decision of the customer involves social risk of becoming an object of ridicule among his acquaintances.

*Time risk:* This is the risk that the time spent to search and locate a product/service prior to its purchase may have been wasted, if the product/service does not conform to the customer's expectations. For example, there is a time risk involved in a customer's decision to purchase a music system after having made an extensive search of all the models available in the market before purchasing it.

### Evaluation of Alternatives

The search process leads to a set of alternatives that consumers evaluate in the next stage of the buying process. Customers use a set of alternatives to compare and evaluate the services offered by various service providers. In services, there are more experience qualities than search qualities. This makes it difficult for a customer to obtain information about a service before purchasing it. Hence, the evoked set of alternatives is smaller in services as compared to products. A smaller set of alternatives in services may also arise if there is only one service provider in a particular geographical area. Further, as the customer's presence is usually required for the delivery of the service, it restricts the geographic reach of the service provider. This is another reason for the smaller set of alternatives in the case of services as compared to products.

Customers make use of various factors to evaluate a service. The first factor in evaluation of services is a well-defined set of attributes. Often, customers find it difficult to identify these attributes and comparing various alternatives on the basis of these attributes. Attributes can be easily identified before purchase in case of goods, and they remain the same for all customers, though with varying degrees of importance. However, in case of services, these attributes are intangible and cannot be identified before the purchase of a service. In addition, individual customers take part in the service delivery and change the service outcome according to their personal needs. For example, the interior designing of a house is done according to the customer's taste and differs from customer to customer.

The intangibility characteristic of services makes it difficult for customers to assess and compare the service prior to its purchase. Hence tangibilizing services, at least partially, becomes necessary for service providers. Service providers try to present customers, an idea of the service levels, using tangible clues such as furnishings, staff behavior, decor, etc. which help tangibilize the service to some extent. Further, customers also consider the physical appearance of the service provider as a means to assess the service experience.

## Services Marketing

The second factor in customer's evaluation of a service involves his moods, emotions and attitude. Moods are temporary states of feeling in a customer. They occur at certain times and in response to a particular event or situation. Suppose a customer enters a coffee shop in a bad mood, after being through a bad traffic jam. It might happen that the customer does not enjoy the coffee as much as he would have if he were in a good mood. Emotions are intense feelings, which involve psychological responses like anger, fear, etc. Suppose the same customer feels resents consumption of non-vegetarian food. He might not enjoy his meal in a restaurant, which also serves non-vegetarian food. Attitudes are the sum total of an individual's feelings about a company, another person, a brand, etc. Imagine the same customer to be against the concept of fast food, as he believes that it has led to unhealthy eating habits among the children and youth. He might never want to visit a fast-food joint because of his attitude towards fast food.

Since the customer is part of the service delivery process, the moods and emotions of both the customer and the provider affect the service delivery and experience. Positive moods and emotions of customers result in a positive service experience. Customers with positive moods and emotions cooperate with the service provider and help in making the service experience successful. On the other hand, customers in a bad mood or in a bad emotional state do not help the service provider in any way to make the service experience successful. Further, the moods and emotions of the service provider also have an effect on the service delivery. For example, if a customer is interacting with an irritated customer care executive in a bank, the executive's mood influences the interaction and is likely to make the customer's experience unpleasant.

The attitude of a customer influences his purchase behavior. For instance, some customers might have a very negative attitude towards some services such as blood banks and eye banks. This makes them evaluate such services with fear and suspicion. Therefore, marketers study customer attitudes closely, and try to create positive attitude in customers for their products/services through innovative promotional and advertising campaigns. They even try to change certain negative assumptions of customers through advertising.

Customers consider and evaluate many attributes while making decisions regarding purchase of high-end goods or services like cars, holiday packages, houses, etc. The use of many attributes to assess a particular product or service is known as multi-attribute evaluation. As the purchase of high involvement goods or services involves certain amount of risk, marketers should present all the positive aspects of a product or service. Further, they should point out the important attributes, and advantages of their product or service when compared to a competing brand

The third factor in the evaluation stage is how customers integrate available information to make a purchase decision. They may use either formal or informal decision-making rules. Formal decision making rules involve comparing alternatives and examining them on the basis of specific attributes. Informal decision-making, also known as heuristics<sup>2</sup> or 'rules of thumb', is experience-based and forms the reason for many purchase decisions. Sometimes, one tends to base his decisions on the family norms or culture. For example, if the father has been buying goods from a particular vendor, the son might also continue doing the same for reasons, which he might never analyze. Let us look at other examples - buying branded products, buying the cheapest brands, or in a well-known store, or buying brands endorsed by a well-known celebrity, may be based on heuristics. For example, ICICI Bank has used Amitabh

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<sup>2</sup> A set of rules that increase the probability to solve a problem. People involved in the management develop these rules to reduce the necessity to process information for decision-making. Of or relating to a usually speculative formulation serving as a guide in the investigation or solution of a problem.

Bachchan, the noted Bollywood actor, in its advertisement to promote its products and influence the purchase decisions of customers. ICICI Bank has used the 'like-agree' heuristic whereby, people arrive at the same decision as the one taken by someone they admire.

### Purchase Behavior

Customers' purchases can be classified into trial purchases, repeat purchases, and long-term commitment purchases. Customers make a trial purchase through the purchase of a small quantity of a particular product, or through the use of a particular service for a limited period of time. During trial purchase, customers try to evaluate the product/service through direct consumption. Promotional activities by companies also encourage customers to make trial purchases. For instance, Club Mahindra offers free holiday packages to customers to encourage them to join the club. The customers can avail the facility and experience the hospitality offered by the club before they decide to become members of the club.

Customers repeat their purchases when they are satisfied with the product/service quality when compared to other existing products/services in the market. Repeat purchases often lead to brand loyalty in customers. Brand loyalty is the preference shown by a customer for buying a particular brand, which results in its repeated purchase. For example, if a customer tries the complementary holiday package offered by Club Mahindra and decides to join them, it is termed repeat purchase. Suppose at the end of the offer period, the customer plans to renew his membership, but is made a better offer (in terms of price) by the Taj group. However, he decides to renew his membership with Club Mahindra. The preference shown by the customer to avail the services of Club Mahindra, in spite of a competitor's offer, indicates the customer's brand loyalty.

The third type of purchase is long-term commitment purchase, which involves customers opting to purchase a long-term service package after being satisfied with a trial package. For example, after experiencing the hospitality offered by a club for a trial period, a customer might decide to enter into a long-term service contract with the club and take a 10-year or 15-year membership with the club. Lifestyle clubs like Country Club offer long-term membership of 5, 10, or 15 years duration to customers.

### Post-Purchase Evaluation

After purchasing and using a product or service, the customer evaluates it by comparing its performance with his expectations. A customer is satisfied when the product or service meets or exceeds his expectations. A satisfied customer becomes brand loyal, brings in repeat business and gives a positive feedback to others about the product or service. It costs a company much more to attract new customers than to retain them. Therefore, companies today focus also on retaining old customers apart from attracting new customers.

Customer loyalty is a competitive advantage for companies. Hence, many companies have started loyalty programs to retain customers. Exhibit 3.2 describes how customer loyalty programs began and how companies in India are adopting the concept to retain their customers. In case of some services, customer satisfaction is also influenced by the compatibility of the various customers receiving the service. If customers are irritable and troublesome, it will have a negative impact on the other customers receiving the service at that time. For example, a customer may have an unpleasant experience if he comes across a boisterous gang of youngsters in a restaurant known for offering a serene dining experience to its clientele. The customer is dissatisfied if his expectations regarding the service are not met by the service provider. This makes the customer attribute his dissatisfaction either to the incompetence of the service provider or to his own inability to define his requirements clearly to the service provider.

**Exhibit 3.2**

**Consumer Loyalty Programs in Companies**

An associate professor of Harvard Business School, Das Narayandas, describes loyalty programs as a means to gather information about customer preferences, their buying patterns and frequency of purchase. He stresses that service providers should utilize the information gathered from loyalty programs to differentiate their service from that provided by other service providers and make the service experience delightful for the customer.

Customer loyalty programs emerged when the airline industry began offering frequent flier miles to its regular customers. These programs are now widespread in other businesses in the service industry too, like hotels, travel, tourism, banking, etc.

In India, loyalty programs began in the hospitality industry and spread to the airlines, petroleum companies and automobile industry. While some companies in these industries tasted success from their loyalty programs, there are instances where others have taken the wrong steps and faced the bitter consequences.

Three years ago, India's major petroleum company, BPCL started the petrocard loyalty program which is now being used by a million private vehicle owners and fleet operators and has contributed up to Rs 2000 crore to BPCL's turnover in 2002. Similarly, Crossword, a bookstore, began a loyalty program when the management realized the need to retain its regular customers for their lifetime. As part of its loyalty program, Crossword tracks the interests of its customers, studies their behavior over time and uses this information to influence their purchase decisions. Studies have shown that loyal customers are the highest spenders. For instance, 30-55% of sales at Shopper's Stop come from their loyalty program, 'First Citizen's Club'.

Regular communication with customers, an integral aspect of loyalty programs, involves high costs to the company. Companies should evaluate the success of these programs by studying the buying patterns of the same customers over the years and not on the basis of a percentage increase in growth which might be due to the presence of some other factors. Maintaining an effective loyalty program is a constant challenge to service providers.

*Adapted from Ravi Balakrishnan and Vinod Mahanta, "Rocky Road to Loyalty," Brand Equity, The Economic Times, 24 September 2003.*

A customer might also experience psychological tension after making a difficult choice of a product/service, a concept known in consumer behavior as 'cognitive dissonance.' Cognitive dissonance happens when a consumer has contradictory thoughts about his previous beliefs or actions regarding a particular product or service. When a consumer experiences cognitive dissonance after purchase, then it is known as post purchase dissonance. It makes a customer feel dissatisfied with his purchase decision and makes him feel that some other alternative would have met his expectations better. However, consumers are likely to change their attitude in order to come to terms with their actual purchase behavior by erasing any disharmony caused by post purchase dissonance. Further, they try to support their purchase decision as being wise, look for advertisements that support their decision and boast to friends that the product/brand chosen by them is perhaps the best.

After gaining an insight into the process of consumer decision making behavior, it is important to understand whether customers make purchase decisions in isolation or whether their purchase decision is influenced by external or environmental factors. Thus, it is necessary for marketers to understand the external or environmental factors that influence the purchase decisions of customers.

## EXTERNAL FACTORS INFLUENCING CONSUMER BEHAVIOR

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Many factors have an impact on consumer behavior. Some of these factors are described below:

- i. *Culture*: Culture consists of the values, norms, roles and customs shared by members of a society. It differs from place to place. The culture of a place plays a vital role in determining the values and attitudes of the people of that place, and in turn their purchase behavior. Therefore, marketers should have an understanding of the culture of the different places in which they wish to market services. For example, a firm providing 'dating services' might do well in American culture, but might not win too many hearts in the Indian market.
- ii. *Subcultures*: Subcultures are smaller sections in a society with similar norms, values, and behavior patterns, which make them distinct from the main culture. Age, lifestyle, geography, ethnicity, race, and religion may form the basis for subcultures. In India, there are special restaurants in the South offering North Indian food to cater to the tastes of the North Indian people living in the South. Likewise, in the North, there are special restaurants that cater to the tastes of people from South India.
- iii. *Social class*: People having similar lifestyles, interests, values, behaviors, and norms are grouped under a social class. Their similarity in beliefs forms the basis for market segmentation, and affects their shopping patterns or the kind of products or services they purchase. Thus, marketers offer products and services aimed at a social class of people. For example, hotels such as the Sheraton, the Hyatt and some Taj group hotels cater to the tastes of the elite class.
- iv. *Reference groups*: An individual uses the perspectives of a reference group as the basis for his actions, judgment and opinion. Marketers make use of reference group influences to develop advertisements by associating products, services, or some behaviors with some types of reference groups. For example, Sahara group in India uses the Indian Cricket team in its advertisements.
- v. *Family*: Purchases are often not made by individuals alone, but a whole lot of other people too have a say in the purchase decision. Marketers need to recognize the role played by these various individuals in the purchase decision, in order to target their marketing message at them. The various individuals who play an important role in the decision making process include the initiator (a person who first gets the idea of purchasing a particular product or service), information provider (a person who collects the information required to make a purchase decision), influencer (a person whose opinions are given preference in making the final decision), decision maker (a person who takes the final decision), purchaser (a person who purchases the product) and user or consumer (a person who actually uses the product).

## IMPLICATIONS FOR SERVICE PROVIDERS

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Knowledge of the factors influencing consumer behavior has several implications for service providers, which are as described below.

1. Customers gather and rely on information obtained from personal sources when making service purchase decisions. Therefore, marketers should be careful in satisfying existing customers by meeting or exceeding their expectations. Otherwise, customers might spread negative word-of-mouth publicity.
2. Services are intangible in nature. Customers require the assistance of the service provider to assess the value of a service with high credence qualities. This

## Services Marketing

provides an opportunity for service providers to market services having high credence qualities and to add value to the service delivery process by assisting customers to assess the intangible features of a service.

3. In marketing of services, the customer becomes a part of the service delivery process. This, termed as customer co-production, has become the buzzword for service marketers as it helps them reduce their fixed costs in delivering the service. Customer co-production refers to the involvement of customers in the production and delivery process of a service. The service is co-produced and costs much lesser than the traditional over-the-counter services provided by marketers. Examples of customers' involvement in producing a service are actions such as making an online reservation for a train ticket or a movie ticket.
4. Time being a crucial factor in gaining ahead of the competitors, customers in the new millennium are willing to trade off money against time. Service providers thus compete on the basis of time taken to deliver the service. Transportation and logistics services that are time-bound provide new opportunities for service providers to differentiate themselves from their competitors. For example, passengers of the Delhi-Bombay Shatabdi express shifted to metro shuttle flights introduced by Indian Airlines and Jet Airways even though it cost them more in terms of money. This example clearly shows the importance of time to the customer.

### Exhibit 3.3

#### e-Banking in India

The Indian banking industry is changing at a fast pace. Internet banking or e-banking is becoming the buzzword in the banking industry. Credit for this goes to the sophisticated technology, which enables bankers to offer services that would not have been possible three decades ago.

Many private sector banks like Global Trust Bank, HDFC Bank and ICICI Bank have spent millions of rupees to install technology that facilitates electronic transactions. The question that arises here is – is it worth spending so much money on technology? Many executives in these banks would agree and say yes. The reason is that the use of the Internet helps decrease the total cost of transactions in banks. Banks are now able to charge lower interest rates on loans and offer higher interest rates on savings accounts, all because most of their transactions are now done electronically. The cost per transaction through the Internet is 27 times less than a transaction via an ATM (Automatic Teller Machine), 54 times less than a transaction over the telephone, and 107 times less than a physical face-to-face transaction.

How will customers react to these changes? Customers are slowly accepting and understanding the benefits of e-banking. Today, the nationalized banks too have converted most of their records into computerized forms, which enable them to retrieve data and offer quick services to the customers. Customers can now open an account, check their balance, transfer funds, pay bills, and obtain loans with a click of the mouse. They need not go personally to the bank for getting these done, unless they need to deal with high-end products like loans or savings investments, which require personal contact with the banker. The concept of 'anytime banking, anywhere banking, anyplace banking' improves customer convenience. Transactions are processed in much less time.

Further, to improve and offer better services to customers, banks like HDFC Bank have tied-up with cellular phone companies such as Airtel, BPL, etc., enabling their customers to pay their bills through telephone or internet directly. However, the challenge for these banks lies in convincing and winning the trust of the customer.

*Adapted from Roshun Povaiah "Digital Entry", A&M, 15 February 2000, p 40-47.*

5. The intangibility characteristic of services provides a good opportunity and can be well exploited by service providers to provide services online. Unlike in physical goods, services can be offered electronically. Exhibit 3.3 describes how banks are making use of Internet technology to offer e-banking services to customers. Cyber-selling, cyber-trading, e-marts, etc. are a few examples of cyber-services.
6. Customers in the new millennium demand both quality and customization simultaneously. This poses a challenge for service providers as both these aspects have different requirements. Quality requires standardization while customization requires variability. However, marketers can meet this challenge by being a little creative. For example, in educational services, customers require standard course contents with a flexible delivery schedule. Educational institutions can offer a superior service experience to the customer by offering them a customized educational package and value added services. Customers are willing to pay for such customized services. Executive and distance education courses, training and consulting business in India are examples of such services.

### SUMMARY

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The intangibility property of services makes it difficult for customers to search for information, make a purchase decision, or even evaluate the service experience. This is due to the presence of more experience and credence qualities than search qualities in services. Hence, service providers need to deliver value added services to their customers to provide them a superior service experience. Decision-making is involved in every purchase decision, whether it is to purchase a product or a service. The decision making process in the purchase of a service involves various steps such as need perception, search for information and the perceived risk, evaluation of the generated alternatives, the purchase decision and the post-purchase evaluation. Further, the decision making process of the customer is influenced by external factors like his family, culture, subculture, reference groups and the social class to which he belongs.

Marketers are innovating several ways to make service experiences memorable for the customer. They are also trying to retain old customers since this is more profitable to the company than attracting new customers. Observing buyer behavior patterns helps marketers to target customers in a better way. The technological advances and globalization of economy make it possible for service providers to design new ways of providing their services.

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## **Chapter 4**

# **Customer Expectations and Perceptions**

**In this chapter we will discuss:**

- Understanding Customer Requirements
- Customer Expectations
- Types of Service Expectations
- Factors that Influence Customer Expectations of Service
- Managing Customer Service Expectations
- Exceeding Customer Service Expectations
- Customer Perceptions
- Factors that Influence Customer Perceptions
- Strategies for Influencing Customer Perceptions

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*“Satisfaction is the level of a customer’s felt state resulting from comparing a product’s or service’s perceived performance standard against the customer’s expectations.”*

*Philip Kotler*

Over the past few years, marketing of services has picked up pace and became popular worldwide. Service organizations 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. Why is it that some companies are successful in providing quality service while others are not? Providing quality service is based on a service organization’s understanding of customer expectations and its willingness to meet or exceed these expectations.

Further, customers judge a service organization’s performance by comparing their perceptions and expectations. In the midst of intense competition, companies can be successful only if they are aware of their customers’ expectations and perceptions and are able to consistently deliver quality service.

In this chapter, we shall first understand what is meant by customer expectations, discuss the types of service expectations, factors influencing customer service expectations and learn how to manage and exceed customer expectations. We shall also understand the factors that influence customer perceptions of service and strategies for influencing customer perceptions.

## UNDERSTANDING CUSTOMER REQUIREMENTS

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A major challenge for service providers lies in assessing customer expectations, which are known to change constantly. Customer satisfaction is dependent on the extent to which the service provider is able to meet customer expectations. The satisfaction levels of customers change when either of the two takes place – there is a change in customer expectations or in the performance of the service provider. Performance of the service provider is within his own control. Therefore, service providers should watch out for changes in the satisfaction levels of customers and respond to the changes accordingly. If there is an increase in customer satisfaction, companies should make efforts to find out what it is that they are doing right and continue to do it. Conversely, if there is a decrease in customer satisfaction, companies should try to identify the faults in the system and rectify them.

Customer satisfaction also depends on their perception of a service provider’s performance. How service providers perceive their own performance may differ from how customers perceive it. Customer dissatisfaction occurs when there is a difference between what the customer desires and what the service provider delivers. Exhibit 4.1 describes how insurance companies in India, having understood customers’ requirements to secure their children’s future, designed their policies accordingly.

In the following sections, we shall discuss in detail customer expectations, types of service expectations, and factors influencing service expectations, and how to exceed service expectations.

## CUSTOMER EXPECTATIONS

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Customer expectations play a key role in a company’s success and 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.

### Exhibit 4.1

#### Insuring Your Child's Future

The opening up of the insurance sector in India has paved the way for private and foreign players to enter the Indian insurance industry. Insurance companies are trying to understand customer expectations and design their policies accordingly.

Insurance companies have realized the difficulties faced by middle-class individuals to pay for their child's education, marriage and so on. Identifying and grabbing the opportunity available in the field of children's education, many insurance companies have come up with policies that cater to the needs of children. Allianz Bajaj's Child Care, Birla Sun Life's My Child, ICICI Prudential's Smart Kid, AMP Sanmar's Yuva Shree, HDFC's Children's Policy, and LIC's Komal Jeevan, Jeevan Sukanya and Jeevan Kishore are some of the childcare plans available in the market.

These policies can be differentiated on the basis of the life insured. While some policies require the parent's life to be insured, the others need the child's life to be insured. However, most of the plans offer benefits to the child in case of the parent's untimely death. In addition, some insurance companies have introduced a critical rider in the form of Waiver of Premium to address the needs of policyholders during unforeseen adversities. According to this rider, the insurance policy will continue to be in force even if some calamity occurs. BLSI, and LIC's Komal Jeevan offer this as a rider while HDFC, ING Vysya have built this within their policies.

Insurance companies have understood customer expectations clearly and most of them offer policyholders the sum assured (SA) along with a bonus at the time of maturity. There is little difference in the pay-out-structure of the policy. Most of the policies have surrender value and some of them allow policyholders to take loans on the policies. On the other hand, unit-linked plans like the one offered by ICICI Prudential provide the policyholder with an option to withdraw sums of money at important junctures during the course of the child's education or to avail the benefits during the last 5 years of the policy.

Unlike earlier times, present-day parents have many options to provide security for their children and to meet the demands of their children's future. They can choose a policy after deciding on the sum assured (SA) and comparing various schemes available on the basis of the pay-out structure and premium payments. Thus, in order to survive in the market and retain customers, insurance companies are willing to customize their policies according to the needs of their customers.

*Adapted from Amrita Chauhan, "The Wonder Years," The Economic Times, 29 September 2003*

Customers do not expect service providers to fulfill 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. For instance, 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. 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. The five dimensions are:

**Assurance:** This refers to the ability of the service provider and his employees to use their knowledge and courteous behavior to instill trust and confidence in customers regarding the service.

**Empathy:** This refers to the service provider's ability to show concern for customers and devote individual attention to each customer.

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*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.

*Responsiveness:* It refers to the willingness of the service provider and his staff to provide assistance and prompt service to customers.

*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.

## TYPES OF SERVICE EXPECTATIONS

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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 and adequate.

*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 increase when the customer is experienced and has good knowledge of what to expect in the service. For example, an executive who has traveled 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.

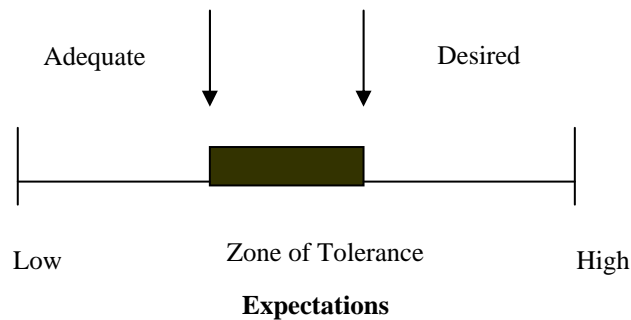
The desired service expectations of a customer may also depend on the service expectations of an associated party. The associated party may be a customer of the customer himself. For example, in the case of supply of food by a hotel to an airlines company, the airlines demands superior quality food to 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 traveling by the airlines comprise the associated party.

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

*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.

**Figure 4.1: Service Level Expectations**



Source: Parasuraman A., Leonard L. Berry, Valerie Zeithaml, "Understanding Customer Expectations of Service," *Sloan Management Review*, Spring 1991

A customer's expectations of adequate service change with his perception of the available alternatives for the particular service. Customers' expectations of adequate service increase in situations of an emergency. For instance, 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.

*Predicted Service:* It is the service level between the desired and adequate service level of a customer and lies in the zone of tolerance.

*Zone of tolerance:* It is the gap between a 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. 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.

### **FACTORS THAT INFLUENCE 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 that Influence Customer Expectations of Desired Service**

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. For 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

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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.

*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. For 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. For 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.

### Factors that Influence Customer Expectations of Adequate Service

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. For 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 fulfill the need. For 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 nationalized 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 nationalized bank providing the requisite service.

## Customer Expectations and Perceptions

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. For 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. For 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. For 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. For example, if a software-training institute advertises that doing a specific course at the institute can help one get a plum job in the United States, candidates enrolling for the course will have increased desired and predicted service expectations. All those who enroll for the software course at the institute will desire to obtain a job in the US soon after they complete it. Further, the candidates doing the course begin to believe that the service provider will help them in getting a job in the US.

*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. For 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.

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

### Criteria to Evaluate a Service based on Customers' Service Expectations

Customer service expectations involve evaluation of how a service provider delivers the service. That is, a customer's opinion of a good, terrible, or bad service lies in his service experience. A customer's service experience is controlled by his sensory impressions coupled with his intentions and mood at the time of the service encounter. However, recent studies show that a large number of customers are ignorant of their evaluation standards of a service and their service experience is ruled by certain elements of thought that they themselves are unaware of. Therefore, if service providers are able to determine the criteria that affect customers' service experience, they will be successful in generating customer satisfaction with their service.

Customers evaluate their service experience based on the following criteria.

#### *Speed*

Often, service is evaluated on the basis of speed. Speed of service includes not only the time spent by a customer in defining, selecting, ordering, and purchasing the desired service but also the time taken by the service provider in delivering the service to the customer. For example, a customer who needs to leave by the evening flight would prefer a travel agency that takes information over the phone and delivers the tickets in a couple of hours as it saves him a lot of time.

#### *Certainty*

Customers unconsciously estimate the reliability of a service provider, his service, and the quality of information provided by him about the service. When a customer cures a package, he expects it to reach the destination in 24 hours, as promised by the service provider. However, to evaluate a service, it is important for a customer to have good knowledge and understanding about the service rather than having to rely on the information provided by the service provider.

#### *Ease*

Customers also assess the service experience based on the ease involved in experiencing the service. Thus, they evaluate the service based on the ease with which the service transaction is carried out. For example, a customer would prefer a theater that provides for online or telephonic ticket booking as it saves him a lot of effort.

#### *Personal recognition*

Every human being likes to be recognized as a unique individual. Customers like it if a service provider delivers his service keeping in mind a customer's unique needs and wants. Such gestures by the service provider generate customer delight and make them evaluate the service in a positive light. For example, a customer who requested for an extra pillow during his first stay at a hotel, would be delighted when the service manager arranges for it on his next visit, without his asking for it.

Knowledge of the factors that influence customer expectations and the criteria on which customers base their evaluation of a service experience, help service providers take measures to manage customer expectations.



### MANAGING CUSTOMER SERVICE EXPECTATIONS

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Service organizations 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 fulfill. For 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. 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 the competitive attractiveness of the service. On the other hand, over-promising will increase the customers' expectations beyond the company's ability to meet them. Therefore, firms should make an honest representation of their capacity to 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 – “Getting it Right the First Time”

Customers give importance to reliability over the other four dimensions of service. Firms that fail to deliver reliable products or services the first time, fail their customers directly. Studies show that the service expectations of customers increase at the 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. Consider an example where the owner of an air-conditioner has called up the appliance company for a repair work. The company promises to send its executive at a given time on a said date, but fails to do so. This reduces the zone of tolerance of the AC owner. He expects the company to keep its promise, without any deviations, the next time the executive is scheduled to come.

Service organizations 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 the customer's first service encounter.

#### Effective Communication

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 organization can initiate proactive communication to inform customers about the latest developments in the organization that will help it serve them better. For 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

## **Services Marketing**

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

### **EXCEEDING CUSTOMER SERVICE EXPECTATIONS**

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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.

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.

### **CUSTOMER PERCEPTIONS**

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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. In the next section, we shall discuss the factors, which influence customer perceptions.

### **FACTORS THAT INFLUENCE CUSTOMER PERCEPTIONS**

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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 below:

#### **Service Encounter**

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. For 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. Exhibit 4.2 describes how banks today have devised new methods of service encounters for the convenience of customers.

### Exhibit 4.2

#### Service Encounters in Indian Banks

With liberalization, many private Indian and foreign players have entered the Indian banking sector. Consequently, the manner in which banking transactions are carried out has changed entirely. Banks in the private sector and foreign banks are concentrating on providing better service and convenience to customers and making transactions easier.

Earlier, banking transactions would take place during fixed timings and require the physical presence of the customer and the banker. However, banking today has evolved to such an extent that it provides access to customers either through a click of the mouse or a simple SMS (Short Messaging Service) from their mobile phones. “Anywhere Anytime” banking is the buzzword today. Customers can withdraw money from ATMs (Automatic Teller Machine) irrespective of the time and place.

These banks have innovated new ways of service encounters that are convenient for the customers. Tele-banking, Internet banking, and mobile banking are the emerging trends in banking in the new millennium. HDFC Bank, GTB, and ICICI Bank have started these services to serve customers better.

ICICI Bank has opened call centers at Mumbai and Hyderabad to provide tele-banking services round the clock i.e., 24x7 access to banking facilities to its customers. A tele-banking customer can either choose to utilize the automatic voice-recorded options or can speak to the customer care personnel.

Internet banking enables customers to transfer their funds online, check the balance for the last 10 transactions and the history since the opening up of the account. Further, a customer can request for a cheque book, open fixed and recurring deposit account, request for a debit card, get monthly statement through e-mail, and even pay bills.

ICICI Bank, HDFC Bank, GTB, and many other banks have started Internet banking facility through which a customer can carry out banking transactions from anywhere in the world. The customer is provided with a unique PIN number and user ID to log into the bank’s web site, access his account and carry out the transactions. For the first time in the country, HDFC Bank has started a new facility called One View, which allows a customer to check his accounts in other banks or different types of accounts in the same bank on one screen. With this facility, HDFC’s net banking customers can check their accounts with ICICI Bank, Citibank, HSBC, Standard Chartered Bank, Global Trust Bank (GTB), and HDFC Bank Demat accounts.

The changes that have taken place in the Indian cellular industry have made it possible for banks to offer mobile banking facilities to their customers. HDFC bank, ICICI bank and Citibank have tied up with cellular service providers like Orange Tel, Airtel, Sky cell and BPL Mobile. Customers can access their bank accounts through an SMS (Short Messaging Service) or WAP (Wireless Application Protocol) enabled mobile phone. Through ICICI Bank Mobile Banking Requests, a customer can perform bank transactions, obtain information about the last three transactions with the bank, check the status of a cheque, order for a new chequebook as well as pay bills.

*Adapted from “Nuts and Bolts of Internet Banking”, Business Line, 16 July, 2000; “ICICI Bank Opens Call Centre at Hitec City”, Business Line, September 20, 2002; [www.icici.com](http://www.icici.com), and [www.hdfcbank.com](http://www.hdfcbank.com).*

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. For 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.

## Services Marketing

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.

#### ***Remote encounters***

Remote encounters do not involve any direct human contact. Examples include 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.

#### ***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. 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.

#### ***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 behavior. 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.

### **Factors leading to 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.

#### ***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. Examples of 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.

## Customer Expectations and Perceptions

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 favorable opinion of the service.

### *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 organization to manage these types of requests.

Examples of 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 favorable perception of the service.

### *Spontaneity*

Spontaneity is the unsought or voluntary action of employees in delivering a service. Examples of spontaneity include responding quickly to emergencies, and voluntarily bending rules to accommodate the special needs of a customer. Voluntary behavior 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 favorable perception about his service.

### *Coping*

Coping is the process of how employees manage problem customers and situations effectively. Examples 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.

## 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. 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.

There are three types of service evidences – personnel, process, and physical environment. Exhibit 4.3 describes how the famous luxury hotel, The Ritz Carlton, manages service evidence to make its services tangible to its guests.

*Service personnel* 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. For 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.

### Exhibit 4.3

#### The Ritz Carlton Hotel

The Ritz Carlton is the only service organization to receive the Malcolm Baldrige Award twice, in 1992 and 1999 for quality service. In 2003, J.D. Power and Associates, a global marketing information services firm, identified Ritz Carlton as being the “Highest in Guest Satisfaction among Luxury Hotel Chains”. The service philosophy followed by its personnel in thirteen countries speaking sixty- six languages, helped Ritz Carlton in this achievement.

Ritz Carlton has earned worldwide acclaim for customer service and provides evidence of its service in its people, processes and physical evidence. The hotel empowers its people, instills in them a sense of belonging, and trains them to pamper and show empathy to their guests. The hotel has very strict recruitment procedures and does not compromise on its service standards. It has developed The Gold Standards - The Credo, The Motto, The Three Steps of Service, The 20 Basics and The Employee Promise, to serve its guests. The hotel believes in making its guests feel special and provides them a home outside their home. Customer satisfaction with the service is evident in the fact that 51% of the hotel’s guests are repeat customers.

The processes at The Ritz are very flexible to accommodate guests’ needs. The personnel at Ritz are given the freedom to go out of their way to serve guests. Any employee can use upto \$2000 of the hotel’s money to solve a guest’s problem immediately. In doing so, Ritz Carlton believes in creating memorable experiences for its customers. Instead of maintaining the same design everywhere, the hotel’s appearance reflects and matches its surroundings.

*Adapted from Bill Lampton, “Paragon of Customer Service Excellence - The Ritz-Carlton Hotel PART I”; “My Pleasure - The Ritz-Carlton Hotel PART II”; and “Show and Tell – The Ritz Carlton Hotel PART III,” <[www.expertmagazine.com](http://www.expertmagazine.com)>*

The pleasing and friendly behavior of these personnel in their interactions with customers enhances customer perceptions of service quality and results in customer satisfaction. In the case of McDonald’s, the uniform color 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.

The second type of service evidence is the *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 favorable perception of the service.

*Physical environment* 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. For 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.

Service evidence supports the marketing strategy of a service organization 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 organization, and instilling the service philosophy in the employees of the service provider.

## Customer Expectations and Perceptions

*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 organization 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 organization should try to use the first impression of customers to communicate its service commitment, competence and service customization ability. For 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 play a great role in influencing his decision. The tangible clues can be in the form of physical surroundings of the service facility 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. 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. In addition to increasing customer involvement in the service delivery, this also enhances the trust of the customer in the service quality.

*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. For 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 realize the difference from other service providers. For 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 organizations:* An organization 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 organization. For 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 organization's service philosophy to them. The management can also instill 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.

## Services Marketing

For 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 organization towards its employees. For 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.

### Exhibit 4.4

#### Aravind Eye Hospitals

Imagine an organization providing eyesight to 13 million people, an organization performing nearly 1.8 million surgeries in a span of 26 years. The organization in question is the Madurai (a town in Southern India)-based Aravind Eye Hospital (Aravind). This organization was the single largest cataract surgery provider in the world in 2003. While a cataract surgery costs US\$ 1650 in a US hospital, Aravind performed the same quality surgery in India, at US\$ 10. The manufacturing division of the hospital, Aurolab, was one of the leading manufacturers of intraocular lenses (IOLs) in the world. In 2003, the division held a 10 percent share of the global market in IOLs. While other manufacturers such as American Ophthalmic Laboratories, US IOL Inc sold these lens at \$100-\$150 a piece, Aurolab sold the same quality of lens at US\$4 - \$6 per lens.

C K Prahalad, a leading management thinker, has studied Aravind's operations over the years. He observed that Aravind generated a 200 per cent return on capital employed. "We have a good medicine school at the University of Michigan, and they are amazed by what they saw at Aravind. It is better than the best," he said, in appreciation of the functioning of Aravind. According to him, Aravind was a market-driving entity as it served the most unserved market – the poor. The poor in India could rarely afford good eye health care, leave alone eye surgeries. For them a cataract meant blindness, and often, great suffering in their lives. They did not know that they could regain their eyesight with a 15-minute surgery (at Aravind a cataract surgery on an average took 10 to 20 minutes.) Dr. Govindappa Venkataswamy (Dr. V), founder of Aravind Eye Hospitals, explained his marketing philosophy "Give people a new experience, one that deeply changes their lives, make it affordable, and eventually you change the whole world. And your customers become your marketers."

Dr. V had to first educate his potential customers. He encouraged doctors and technicians to undertake community work regularly. As a part of this work, a representative from Aravind visited the village where the doctors intended to organize a weekend camp, and met the village heads. With their help, the representative designed a plan for conducting the camp. Once the details were finalized, doctors and technicians visited the village (sometimes they traveled days together to reach remote villages.) Once they were in the camp, they worked round the clock, testing people and identifying patients who need to be taken to Aravind at Madurai for surgery.

Under Dr. V's leadership, Aravind managed to provide inexpensive eye care services by pruning its costs diligently. Even operating theatres and surgery procedures were designed to enhance the productivity levels of surgeons. Dr. V kept costs low by building an efficient, high-volume, assembly-line process to perform surgeries. Every step ranging from patient screening, registration, to surgery itself, was standardized.

*Adapted from, "Dr.V of Arvind Eye Hospitals – A Level 5 Leader", Anil Kumar, ICFAI Center for Management Research.*

## Image

A customer's perception of the service quality is also dependent on the image of a service organization in the mind of the customer. Organizational image is the customer's perception about an organization 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



## **Customer Expectations and Perceptions**

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 organization and if the organization fails to provide proper service, it will further add to the negative image of the organization in the mind of the customer and result in dissatisfaction. Exhibit 4.4 describes how the Madurai-based Aravind eye hospital created a special image for itself by educating its patients on eye care and giving a meaning to their life.

### **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 organization 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.

## **STRATEGIES FOR INFLUENCING CUSTOMER PERCEPTIONS**

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

### **Enhance Customer Satisfaction through Service Encounters**

Service organizations 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 organizations should innovate ways of delivering their service. Further, service organizations 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 organization's personnel, processes, and physical evidence. They evaluate the behavior of the service organization'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. Organizations 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.

### **Communicate and Create a Realistic Image**

A service organization 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

## **Services Marketing**

tarnish the image of the company by indulging in bad publicity. Therefore, it is important for organizations 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. These dissatisfied customers will engage in negative word-of-mouth publicity, which can be dangerous to the service organization. Therefore, service organizations should adopt a pricing strategy that can give a clue about the true value and quality of the service.

## **SUMMARY**

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Delivering quality service consistently gives a competitive edge to service organizations. 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 organizations consistently meet and exceed service expectations of customers.

While evaluating service offered by an organization, customers compare perceived quality of service with the expected quality of service. Therefore, service organizations should have knowledge about customer perceptions and the influence of factors such as service encounter, service evidence, image of the service organization, and price of the service on customer perceptions. Service organizations 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 innovate strategies to influence customer perceptions.

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## **Chapter 5**

# **Listening to Customers**

**In this chapter we will discuss:**

- Using Marketing Research in Services
- Approaches to Service Research
- Stages in Marketing Research
- Uses of Marketing Research Information
- Upward Communication

## Listening to Customers

*"The human body has two ears and one mouth. To be good at persuading or selling, you must learn to use those natural devices in proportion. Listen twice as much as you talk and you'll succeed in persuading others nearly every time."*

**- Tom Hopkins, Author**

The success of a service firm, or in fact any business firm, depends on its ability to develop appropriate business plans and strategies to suit the changing markets and its own needs. These plans and strategies require information inputs like the latest demographic data relating to the target market, existing demand, latent demand, realistic estimates of future demand, customers' perceptions and expectations and also competitors' action plans. The accuracy and reliability of this information determines the efficiency of a business plan/strategy. Market research helps businesses in gathering such information and, this information in turn, helps them understand and cater to customer expectations.

Businesses fail to satisfy their customers mainly because of their failure to listen to them. This happens more with service firms as their customers sometimes fail to convey their needs and expectations in concrete terms. In some cases, the service providers assume that they know what the customer wants and provide the kind of service which is complete and satisfactory from their own perspective. The customer's perspective however, may be radically different and he may consider as 'inferior' the same service that the service provider considers 'superior.' The gap between customer expectations and the perceptions of the service provider can be reduced if the latter conducts extensive market research obtains information about the customers' expectations and improves the service to meet those expectations. In this chapter, we will discuss various strategies that can be used by firms to effectively listen to their customers.

## USING MARKETING RESEARCH IN SERVICES

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Every year, General Motors spends millions of dollars on market research to identify new and unsatisfied needs of customers and come out with products that satisfy these requirements. This investment is worth making, because of its ability to generate huge revenues (in billions of dollars). Marketing research has been typically used by service firms to make decisions related to appropriate marketing mix. Service providers can use marketing research to know the strengths and weaknesses of their competitors, identify new markets, develop innovative service offerings, and identify the latent demand for a new service and to find ways to delight customers. They can also use the information to find ways to gain a competitive advantage over competitors. Information from market research is also used by firms to identify the right partners in the industry to derive maximum mutual benefits. For example, in the US, FedEx entered into a partnership with the Post Office to synergize their strengths for better customer service. FedEx allows the Post Office to use its planes to deliver letters that are in the 'urgent' category. The Post Office in return, allows FedEx to set up drop boxes on its premises. In this way, the two service providers have extended their network without having to make a huge investment on infrastructure. Similarly, Citibank partnered with American Airlines for enhanced customer benefits. Under the agreement between the two parties, a Citibank card holder earns points each time he makes purchases through the card and becomes eligible for the benefits of the frequent flyer program offered by American Airlines. The companies are thus able to share the efforts to be spent on promotion to reach potential customers.

## **APPROACHES TO SERVICE RESEARCH**

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A service provider can use many approaches to obtain feedback from the customer and/or employees and take necessary action to improve its service. Some of them are discussed below:

### **Post-transactional Surveys**

In these surveys, service firms attempt to get feedback from the customer immediately after the service is provided to him. For example, diners are given a feedback form after a meal in most restaurants or fast food joints like Pizza Hut. As the customer participates in the survey and responds to the questionnaire immediately after he experiences the service offered by the firm, it is more likely that he will give a realistic picture of the quality of the service and the right suggestions for improvement. Firms can use this feedback to evaluate the performance of their front-line employees and reward those offering high quality services. This encourages employees to deliver quality service to customers and win rewards and incentives. Firms also get an opportunity to know customers' opinion of their quality of service and understand customer expectations. They can then take the necessary steps to improve their service in terms of better infrastructure or training programs for employees.

Some firms maintain a comment book or forms in which a customer can write his opinion about the quality of service. ICICI maintains feedback forms which include a few questions seeking the opinion of the customer about the quality of service offered by its personnel. The employee who offers the service requests the customer to fill the form. The questions may include the time taken to complete a transaction (in minutes), the amount of time the customer had to wait before he was attended to and his overall opinion about the quality of service. The customer has to simply mark one of the options provided against each question. The customer is also free to make suggestions on improving the service. Similarly, an exclusive showroom of Levi's & Dockers asks customers to enter feedback on their services in a visitors' book.

### **Customer Complaint, Comment and Inquiry Surveys**

Some firms actively solicit feedback from customers. Delving into the feedback and analyzing customer comments helps firms to take the necessary action and improve their service. After receiving comments from customers, the management analyzes the number and nature of complaints received through a particular channel. It then identifies the most common and serious complaints from among them and acts upon them on a priority basis. Complaints can be collected by front-line employees or executives appointed for the purpose or even the dealers. For example, Maruti Udyog Ltd (MUL) solicits comments and opinions from its customers about the quality of customer service offered by its dealers. Some firms even give individual attention to each complainant and keep the customer informed of the action being taken on his complaint. According to Toyota Motor Sales, USA, customer satisfaction can be optimized by managing complaints from customers effectively.

Some companies that yearn for excellence in customer service are willing to go to great lengths to ensure it. For example, the South African subsidiary of Honeywell, a leading global business solution provider, has a separate division dedicated to addressing customer complaints. If any customer expresses dissatisfaction about any aspect of the company's service, the business excellence manager at Honeywell inquires into the matter, and attempts to find the reasons for the problem. He communicates the progress in the matter to the customer regularly till the problem is resolved. He ensures that the customer's concern is addressed and that no other customer faces a similar problem in the future. The top management at Honeywell also goes through the feedback given by the customers.

### Exhibit 5.1

#### AT&T tests the usability of its web site

AT&T conducted an experiment in 2000 under the guidance of the director of marketing intelligence (AT&T broadband) and with the help of a research firm, Eye Tracking Inc. (ETI). The objective of the experiment was to test the website of AT&T for its usability and effectiveness. For this experiment, two user groups were selected from the customers of AT&T. One group consisted of customers who had already used AT&T's website and the other group consisted of those who had never used its website. Each user was assigned 13 tasks and as he performed them, all his actions were tracked using a special eye-tracking technique developed by ETI. The users had to wear eye-trackers that recorded their eye-movements. It allowed ETI to view the exact point on the screen being viewed by the user.

ETI observed that 88% of the experienced users and 81% of new users successfully performed the tasks they were assigned. Experienced users took 40 seconds while new users took 42 seconds on an average to complete a task. The members of both the groups were not able to choose the options from the menu given in the website quickly. There were very few people who could perform all the tasks without any confusion. The level of confusion was estimated by looking at the back and forth movements made by the user on the screen. If a user took more than 8 seconds to take a decision about his next step, he was considered to be confused. Surprisingly, experienced users exhibited a higher level of confusion (0.62) than new users (0.52). This could be because of the complex nature of some tasks assigned to them, compared to those assigned to new users. However, this indicated that familiarity with the site did not help them to perform all the tasks with ease. It was also observed that the users clicked on an option from the menu and when the page opened they returned to the menu and clicked on another option. This could be because they did not understand the function of items listed in the menu or the wording used to define the function. All the features given on home page of AT&T were observed by the maximum number of users. This indicates that important information and advertisements displayed on this site would be observed by users.

After the experiment was over, the users were interviewed. The interviewers were the people who had observed the users as they attempted to perform the tasks given to them. They had noted down the expressions, eye movements and body language of the users when they faced a difficulty in performing the tasks. The interviewers, therefore, asked the users their opinion about the website, the tasks given to them and reasons for their inability to complete some tasks. They also attempted to know the logic behind users' specific actions, thinking processes and decision processes.

ETI analyzed and interpreted the information obtained from the combination of experiment and interview of the users. It prepared the report and presented the findings to AT&T with the help of charts, graphs and figures. ETI recommended improving the design of the website and making it more user-friendly and interactive and enabling users to complete all online tasks with ease.

*Adapted from Sandra Marshall, Maritza DiSciullo, Tim Drapeau, "An eye on usability Eye-tracking helps fine-tune AT&T's customer service site," Quirk's Marketing Research Review, July 2001*  
<<http://www.quirks.com/articles/article.asp?arg ArticleId=703>>

However, organizations should not depend on complaint and comment surveys alone to develop their marketing plans and strategies. This is because many customers do not complain, but shift to a competitor if they find that the service offered by a particular company is unsatisfactory.

### Total Market Surveys

In total market survey, firms attempt to take the opinion of all the customers in the market, including existing customers, lost customers and potential customers, about their services. By interviewing customers who switched to competitors, the firm can get to know the factors that led to their dissatisfaction. By listening to potential customers, the firm can find out what their expectations are. The survey helps the firm

## Services Marketing

know where it stands in the view of customers vis-à-vis its competitors in terms of quality of service. It also provides the firms with the required insight into the nature of factors that lead to satisfaction/dissatisfaction among customers and on how to improve the system so as to retain existing customers and attract lost and potential customers. Total market survey can also be conducted in a market to identify the latent demand for any service that is non-existent in the market. For example, an entertainment company may propose to open an amusement park for the first time in a south-Indian city. If there are no amusement parks in the city, the company will not know what kind of response to expect from the citizens. It can then go in for an open-market survey in the city to understand the latent demand for the amusement park and customer expectations from it. This will help it take a decision on whether to open an amusement park or not, and if it does decide to do so, what features to include.

Some firms also conduct experiments or trial-tests to measure the effectiveness of their services, especially for newly developed services. The experiments are usually followed by interviews to understand the customers' opinion on the product or service (Refer Exhibit 5.1).

## Employee Surveys

Employees, especially, the front-line employees who are involved in direct customer interaction and customer service will be aware of the various obstacles that prevent them from delivering the best service, the way customers want it. So, a survey of these employees will reveal the loopholes in the system and enable the management to improve the quality of service by plugging the gaps. Often, rigid functional boundaries come in the way of cross-functional co-ordination, and may lead to delayed or inefficient service. For example, a customer in a restaurant may be disappointed with the delayed service. He might mention it in the feedback form as well, but the real reason for the delay might be the confusion in the kitchen due to the inadequate number of chefs. If the management relies on customer feedback alone, it might not get to know the underlying problem. Getting feedback from the employees as well will help the management get to the root cause of the problem (Refer Exhibit 5.2).

The management in some organizations makes the mistake of considering the communication between a front-line employee and the customer as the only essential factor that leads to quality service. However, interaction between various employees within the department and across various departments before the service is delivered to the customer is equally important and is often overlooked. Employees can identify problems relating to service quality quickly and help management in improving service standards. Thus, a service organization would benefit by conducting an employee survey and allowing the employees to express their views on the standards of customer service and the problems perceived by them in delivering quality service.

Unless employees are satisfied with the work environment provided by their organization and their job, they cannot deliver service to match the expectations of the customer. Therefore, employee surveys should also be used to measure employee satisfaction, loyalty to the organization, and their morale and commitment to work. If they express any concern like inequity in pay, lack of flexibility or inadequate training, the management should react immediately to remove their concerns.

## STAGES IN MARKETING RESEARCH

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Service providers may obtain a large amount of information from secondary sources like books, journals and the Internet regarding the market. However, the information may not be relevant or sufficient for the management to take the right decisions based on them. This compels firms to conduct market research and obtain first hand information.



**Exhibit 5. 2**

**Customer surveys and Employee surveys**

In 1995, Sears, Roebuck and Company, a leading retail store in the US, wanted to know whether a relationship existed between employee satisfaction, customer satisfaction and the organization's profitability. Sears collected a huge amount of data from the system, by conducting employee surveys. It submitted this data along with financial data, for analysis and interpretation to a statistics firm. The firm used statistical techniques like factor analysis and cluster analysis and came across some interesting findings. Based on the research results, Sears changed its business model and collected data from employees again by administering a questionnaire containing 70 questions to them. The questionnaire included questions that helped the management understand the opinion of employees about working conditions, compensation and benefits and the like. The data was again analyzed and interpreted and the results indicated that there was a clear relationship between employee satisfaction and customer satisfaction and the organization's profitability. Sears could see that training employees and enhancing their knowledge about new products introduced in stores, helped them serve the customers better. This improved customer satisfaction at Sears, which in turn, increased the company's profitability by retaining existing customers and attracting new customers. Sears also observed that a positive change in employee attitude reduced employee turnover and enhanced customer service. Employees who had a positive attitude towards the job and organization recommended to their friends and relatives to shop at Sears, thus bringing more business to the Sears stores.

The business model adopted by Sears has shown that an improvement in customer satisfaction by 5 points will result in improved customer satisfaction by 1.3 points, which in turn, will increase the revenue of a store by 0.5%. Though Sears' business model has proved to be successful, it believes that it needs to continuously change with changes in business environment. Therefore, Sears continuously collects data by administering questionnaires to employees, analyzes and interprets the data, and based on the results, makes the necessary changes in its business model.

DHL, Jet Airways and British Telecom also conduct extensive market research to improve their work environment, to enhance employee satisfaction and customer satisfaction, and to improve their profitability.

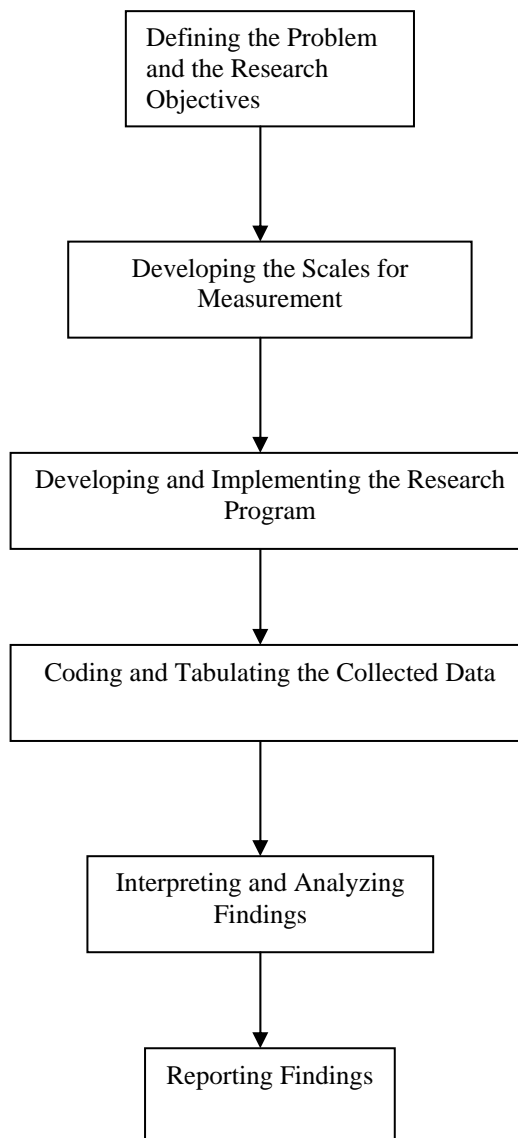
*Adapted from Andrew J. Czaplewski, Jeffery M. Ferguson and John F. Millman, "Southwest Airlines: How Internal Marketing Pilots Success," Marketing Management, September/October 2001; Anthony J. Rucci, Steven P. Kirn, and Richard T. Quinn, "The Employee-Customer-Profit Chain at Sears," Harvard Business Review, January-February 1998; Business world, 7-21 March 1999, Radio plays a multi-functional role in targeting key business customers <[http://www.rab.co.uk/case\\_studies/html/DHL.html](http://www.rab.co.uk/case_studies/html/DHL.html)>*

Firms need to follow a systematic process of market research in order to obtain meaningful and usable information. The market research process consists of six basic steps – defining the problem and the research objectives, developing a services measurement strategy, implementing the research program, collecting and tabulating data, interpreting and analyzing findings and reporting the findings (Refer Figure 5.1). These steps are discussed in the following section.

**Defining problem and research objectives**

A service marketer may face many problems such as inability to deliver service on time to the customer, increasing customer complaints, and failure of the firm to provide the promised service quality. The service provider intending to find a solution for a problem at hand through market research should define the problem accurately. A problem statement that is too general can lead to excessive and redundant collection of information, posing difficulty in analysis and interpretation. The problem statement should not be too concise either because it might lead to missing out on relevant and vital information.

**Figure 5.1: Process of Marketing Research**



The problem-definition phase is the most critical phase in the process of marketing research. Generally in an organization, the manager in a responsible position in the marketing division identifies and defines the problem and approaches a marketing research analyst. The analyst conducts the research and provides information on pre-determined factors to the manager. The manager then takes a decision based on the results of the research and his own observation and experience. However, defining a problem is not an easy task. Sometimes, problems are not obvious and what looks like a problem may actually be only a symptom of the actual problem. Let us look at an example. Say a services firm is losing its customers to competitors and is unable to attract any from them. The reason could be high price or poor quality service, or ineffective promotion or a combination of these factors. The manager may fail to define the problem accurately as there could be several factors responsible for it. In such cases, he can take the help of a marketing research consultant/analyst in defining the problem itself. The consultant/analyst will help the management in identifying the

problem and thereby the marketing research objectives. Sometimes, an analyst may frame questions and seek answers for them from the research. The research objective and the related questions play a very important role in guiding the research effort. Once the research is complete, any changes made in the objective would render the research futile and the information collected, irrelevant. Therefore, all the time and money spent on the research would go waste. For the same reason, the consultant/analyst and manager should interact frequently and discuss the research objectives and questions in the initial stages itself. For redefining the research objectives, the analyst could pose the following questions to the manager:

- (i) How important is the decision to be taken? Does it really need the inputs of a market research?
- (ii) Is research really essential for taking a decision or is it being conducted to support a pre-determined decision?
- (iii) In what way will the results of this research influence the management's decision?
- (iv) What kind of information is needed by the management to take the right decision?

If the manager and the consultant/analyst find any need for changes in the existing objectives or questions, they should incorporate them prior to the research exercise and modify the planning for the research accordingly.

### Selecting appropriate scale for measuring services

Unless the data collected from marketing research is expressed in quantitative and meaningful terms, it cannot be used effectively for decision-making purposes. For example, a corporate hospital wants to learn the effectiveness of a new promotional campaign of complete health check-up at concessional rates, launched by it. The marketing research should provide data on the number of new customers who visited the hospital and the number of old customers who opted for the check-up after the new campaign was launched. Some qualitative measurements like the satisfaction levels of the customers are also required by the management to make some important decisions. So, the hospital should also measure the change in perceptions and attitudes of prospective customers because of its new campaign. In order to make the right decision, the analysts need to choose an appropriate scale from the several standard scales available for measuring research data. The standard measurement scales include nominal, ordinal, interval and ratio scales. The nominal scale can be used only for counting purposes. It is used to distinguish between various brands, organizations, types of customers or areas of sales. For example, while categorizing customers based on age, a nominal scale can be used as: 12-21 years –A, 22-30 years –B, 31-40 years –C, 41-50 years –D etc. The ordinal scale is used to know the order of priority of customers on various aspects. For example, while collecting data on what is important for customers at a fast food center, their priorities could be ranked on an ordinal scale as: taste –1, speed of service –2, cleanliness –3, variety on menu –4 etc.

The interval scale is used to measure the differences in attitudes and opinions of customers. On an interval scale, the distance between adjacent points on a scale are meaningful, but there is no absolute zero. For example, say a beauty saloon offers the basic package at Rs.500. It would like to know how much more its customers would be willing to pay for some additional features. The customer feedback gave the following results: Perming –Rs.100, Massage - Rs.200, Dyeing –Rs.150. Based on these results, the management might decide to include massage in its basic package as the customers are willing to pay Rs.200 more for it.

The ratio scale is used to measure the willingness of customers to pay higher or lower for some services, compared to other services. To understand this better, let us consider the example of an entertainment firm looking for a business opportunity in Hyderabad. It conducts a market research and asks the citizens how much they would pay to watch a movie at a video parlor, at a 35mm theater, at a 70mm Dolby theater

and at a multiplex theater. The differences between the prices quoted by the respondents have a definite meaning and reflect the degree of their preference. There exists an absolute zero in this scale. The manager and analyst can choose any measurement technique but they should ensure that it measures the required variables with precision. Before selecting a technique, they should test it to check its reliability, sensitivity to changes, ease of use and relevance.

### **Developing and implementing the research program**

After framing the research objectives and questions and determining the methods and scales to be used to measure the results of research, the next step is to design and execute the marketing research program. The marketing research program should clearly specify the sources that should be used to collect the required data, the sampling procedure and the procedure using which the data should be collected and collated. The questionnaire that has to be administered to people participating in surveys should also be developed in terms of the type of questions to be asked and the order in which they should appear in the questionnaire. It should be ensured that the wording of the questions is simple and easily understood by the common man. The cost of research should be estimated prior to the implementation and the management should ensure that the costs do not exceed the budget. In fact, the basic rule is that the research should not consume more resources than the benefits expected out of it.

Effective implementation of the plan is essential for the success of any marketing research. Secondary sources like books, journals, magazines, newspapers and Internet should be searched thoroughly to extract all possible information. While collecting primary information from customers using mail surveys, telephone surveys or personal surveys, managers should keep track of the rate of response. If they find that the response rate is too low or that the costs involved are too high, they should recommend an alternative method. For better results, the interviewers should be trained before they go to the field to collect information.

### **Coding and tabulating data**

In this phase, the research analyst attempts to verify whether all the required data has been collected from all the possible sources and whether the data collected is relevant and accurate. If there are any gaps in data or unanswered questions by respondents, then the analyst attempts to get back to the sources of data (concerned respondents) to obtain the desired information. All the collected data has to be validated, edited, coded and entered into the central processing system for interpretation and analysis by the analyst. Checking the accuracy of the data is called validation. Research analysts, under the pressure of deadlines, sometimes collect the data in a hurry. In the process, they provide scope for errors to creep in. The errors can be as small as entering the responses in wrong columns or recording wrong responses. However, these small errors can lead to major deviations in data analysis, and give an entirely skewed or wrong result. For example, if a respondent has said that he would be willing to pay upto Rs. 1000 on a family outing, the amount may be entered wrongly against the question – How much do you spend on your annual vacation? Or the amount Rs. 1000 may be entered as Rs 10000. Therefore, cross-checking will help the analyst avoid wrong data being fed into the system as this forms the basis for future calculations. Some data given by research agencies may lead to mutually contradicting conclusions. In such cases, the management should ask the agencies for clarification. If necessary, it may request the agencies to produce numerical evidence in support of their data.

Some editing also needs to be done before entering the data into the system. The data editor has to go through all the questionnaires in detail to identify any inconsistent, ambiguous or inadequate responses. In the case of all these questionnaires, the editor has to either infer possible right responses from other information provided in the questionnaire or completely eliminate them from the research study.

In order to make it easier to store the data and its analysis in the system for future reference, each response in the questionnaire could be given a unique code. Coding could facilitate the classification of questionnaires into different categories based on the responses given to different questions.

After the processes of validating, editing and coding the data are over, the research information should be entered into the system. The information should be inspected again by the editor to identify errors that could have crept in during the keying in process.

### **Interpreting and analyzing findings**

The data collected from research is then interpreted and analyzed to arrive at meaningful conclusions. Interpretation and analysis requires people who have an in-depth knowledge of not only the subject, but also the requirements of the organization conducting or sponsoring the research study. For example, from the 1000 responses for a research study by a service organization, it was concluded that 28 percent preferred to spend the weekend at home, 19 percent to go out for dinner, 24 percent preferred a family outing, 11 percent to go for a movie and the rest preferred to hangout with friends. But, what do these findings mean for the organization conducting the research? The analyst needs to understand the organizational requirements to come out with a concrete finding.

Various statistical techniques like correlation, regression, factor analysis, cluster analysis and Analysis of Variance are used for data analysis depending on the situation and type of data. For example, cluster analysis is used in situations where an organization is trying to identify and target the right customer groups for its market segmentation strategy. The basis for the formation of groups could be variables like lifestyle, attitudes or income.

### **Reporting findings**

The last phase in the process of marketing research is communicating the results of the study to the management in a decipherable and useful format. The results should be presented in such a way that the managers easily understand the essence of the research. But for the decision-making purpose, managers might need some minute details and not just the larger picture. Therefore, the report should provide such details wherever necessary. The report should also mention the date of its preparation, the scope of study, different sources and methodologies used, qualitative and quantitative methods used for data analysis and other relevant information. The names and addresses of people who can be contacted in case the manager or any other reader needs some clarifications or additional information while going through the report should be provided. This will enable the users and readers to understand the results of the research study in the right perspective. Tables, graphs, charts and pictures should be used wherever required to enable faster and better understanding of the facts and figures. If the report is too long, it should be split into meaningful chapters or parts with proper titles and subtitles.

## **USE OF MARKETING RESEARCH INFORMATION**

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Marketing research enables organizations to collect real-time information and facts about the markets they are operating in. For example, a service firm can collect information on the opinion of its customers regarding the new service launched by it. Marketing research will also help the management find out the reason behind the change in customer behavior or the reasons for the success or failure of a service offered by the organization. It will also help the management gauge the impact of any change initiated by the organization in the marketing mix of different services offered

## Services Marketing

by them. For example, they can find out the response from customers after opening a new outlet at a new location. Marketing research can also be used to find out whether setting up a new outlet at a particular location would be profitable or not. Marketing research also helps the management estimate the future trends in the market and prepare themselves to face the challenges.

Sometimes, the results of a research study may become obsolete and redundant within no time, thus making all marketing plans and strategies based on it irrelevant, and, therefore, unsuccessful. For example, British Airways conducted a large scale market research in the 1990's to find out what customers wanted from air travel service providers. The research showed that customers valued luxury seats, good food and a wider choice of videos. British Airways took care of all these aspects only to find its customers switching to competitors like Delta, Lufthansa and American Airlines. This was because British Airways failed to give attention to the technology aspect. More and more people, especially the business executives were using their laptops on the flight. They preferred planes that provided power sockets in the arm rests of seats and sufficient leg-space. Thus, British Airways lost business to other players who acted proactively to provide these facilities on all their planes. Market research should, therefore, be a conscious and continuous process in organizations, rather than a one-time effort.

## UPWARD COMMUNICATION

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In many organizations, communication flows only from the top to the bottom. The flow of this information itself depends on the willingness of managers and supervisors to communicate with their subordinates. They pass on the information only when it becomes essential that the subordinate has the information to perform the work assigned to him. It is very rare that managers encourage their employees to communicate their opinions and suggestions. The inadequate flow of information and absence of upward communication can cost an organization heavily. The major reasons for failure of organizations to deliver quality service include lack of emphasis on marketing research, lack of utilization of research data in marketing decisions, lack of interaction between the management and, the employees and the customers. An organization, to be successful, should have a free flow of communication in all directions – upward, downward and across the breadth of the organization.

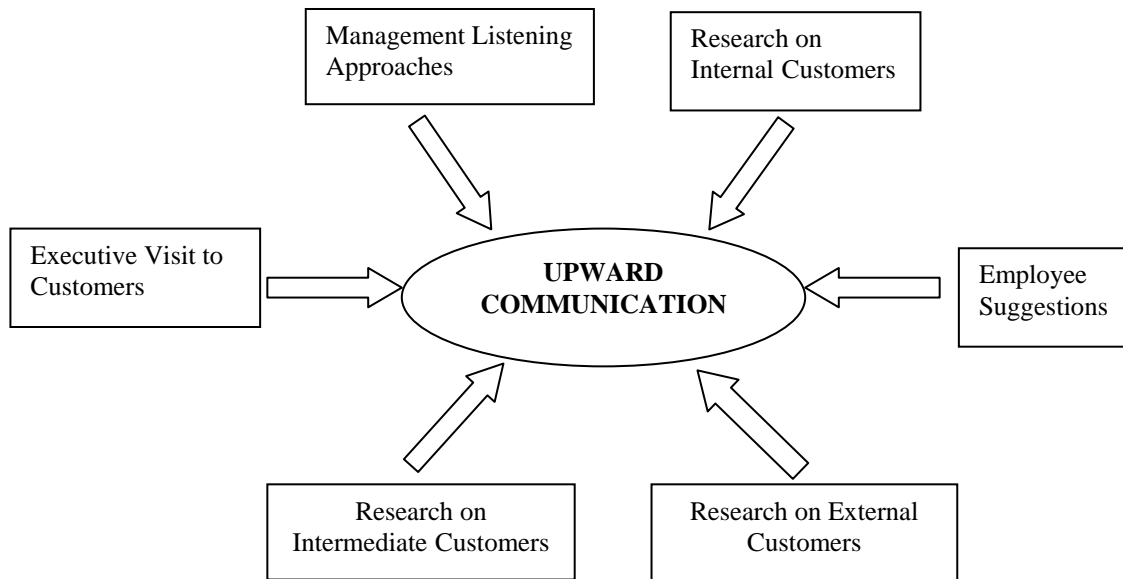
### Objectives of Upward Communication

Upward communication includes two-way communication between the management and the employees and between the management and the customers. By listening to the employees, the management can develop a better relationship based on trust and empowerment and this will improve industrial relations. The management will also get to know what the customers expect, take suggestions and ideas to improve quality of service, introduce new services and cut operating costs as the employees interact with the customers and understand their expectations. By listening to customers, the management can enhance its understanding of the customers' tastes and preferences, their requirements and expectations and also receive suggestions from them on ways to improve the service. Refer to Figure 5.2 for approaches to upward communication. These approaches are discussed in detail below:

#### Executive visit to customers

Managers should not depend exclusively on the information channels and indirect sources like marketing research consultants or research reports published in marketing journals, to obtain information about customers. The best way to get first-hand information is by making personal visits to customers and interacting with them. In

**Figure 5.2: Approaches to Upward Communication**



some firms, only the marketing managers and the marketing staff visit the client. This is not a very effective practice, unless the employees from all departments know the customer's perspective, they cannot contribute their best. The marketing manager may attempt to communicate to the R&D manager or the service manager, what the customer desires or expects. But some vital information or insight might get lost during this communication. In the absence of direct interaction between the manager and the customer, the final product/service offered to the customer may not be the one the latter had asked for. Sometimes, the customer may not know exactly what he wants. He may be able to communicate only the problems he faces with current offerings. If a product/service expert listens to the problems himself and understands, he could perhaps identify an opportunity to develop an innovative product/service or amend the current offering to suit customer needs. For example, at IOB (Indian Overseas Bank), Customer's Fortnight is celebrated every year, in which Central Office Executives, Regional Managers and officials from the regional office visit the branches and convene meetings of the customers to find out their views/grievances.

Direct interaction with customers is also important for other reasons. For example, the financial manager of a firm may not be willing to allocate the budget requested by the R&D or marketing department because he does not feel that their demands are justified. But if he directly listens to customers' needs and expectations, he may understand the need to upgrade R&D or improve marketing and so, allocate the budget they ask for. Therefore, organizations should send cross-functional teams consisting of members from different departments, to visit and interact with customers. This will help in developing a better understanding among them about the customers and the need for co-operation and co-ordination among the different departments to deliver excellent service and meet customers' expectations. Airtel has a unique program called the 'Customer Contact Program'. Once a month, all senior managers of the company reach out to customers to get a first hand feel of customer response and feedback from them. Similarly, some senior managers go and meet the company's channel partners and meet walk-in customers to get a feedback on their experiences with Airtel.

### **Executive or management listening approaches**

Executives can listen to customers by making personal visits or telephone calls or through e-mails and fax. They can also go through the customer feedback forms or books to get first-hand information on customer expectations and requirements. They can also use other approaches like communicating with front-line employees who work in close contact with customers and addressing customer advisory panels. An organization can form an advisory panel of customers by inviting a few interested people from the customer community to communicate the needs and desires of the community. The members of the panel attend meetings conducted by the executives from time to time, or respond to telephonic interviews and questionnaires mailed to them to convey the feedback. The members provide feedback on the quality of service offered by the organization as well as provide suggestions to improve service.

### **Research on external customers**

This topic has already been covered under various headings earlier in the chapter. Research on external customers helps the organization gather valuable insights into customer behavior, their requirements and expectations. This, in turn, helps the organization redesign its marketing mix to derive the maximum benefits.

### **Research on internal customers**

For any organization, listening to the internal customers, i.e., the employees, is as essential as listening to the external customers. The management needs to earn employee commitment and ensure that their morale is high so that organizational goals are achieved. The methods used by executives/managers to listen to customers can also be used to listen to employees. For example, focus group interviews and advisory panels can be used to know the opinion of employees about the company's policies and procedures regarding serving internal and external customers. In focus group interviews, employees from different departments are asked to form a group and an external consultant or a senior manager poses some questions to them. These questions trigger a discussion among the employees. The consultant or manager plays a passive role and notes down the views and opinions expressed by the employees. Advisory panels also consist of employees selected from a cross-section of the departments of the organization. They discuss the various issues in the organization and the reasons for their dissatisfaction with any of the policies, procedures or systems. They then offer suggestions regarding the steps to be taken by the management to improve the existing policies and systems, and thereby improve employee satisfaction. Executives can also distribute questionnaires to employees or communicate with them using the intranet to gather their views on various organizational issues. Exit interviews, held for employees leaving the organization, can also serve as means to identify the major reasons for their dissatisfaction. By adopting these different methods, valuable information can be gathered from employees and used to improve the work environment and enhance the quality of the work lives of employees. Information can be gathered on the customer service front too. Also, employees who are satisfied with their organization will strive to satisfy the customers and improve the company's image.

### **Research on intermediate customers**

Intermediate customers are the people who act as a bridge between the customers and the service providers. Intermediate customers can be distributors also. For example, an insurance company may have a tie-up with a leading bank to market its insurance services. In such a case, the bank employees are intermediate customers for the insurance company. The customers who come to buy the insurance services from



these employees may comment on the services offered by the insurance firm or offer some suggestions to improve the service. The bank employees also may have some suggestions to offer to the insurance firm to enable them to market their services better. In some cases, the employees may require some formal training for a day or two to gain or update their knowledge about the products of the insurance company. For example, an insurance company may introduce a new property insurance product for its customers. It communicates this information to all its employees and customers but fails to communicate it to the bank employees selling its products. If customers come to the bank to buy the new product and inquire the employees about the new product, the latter being unaware of the new services, would fail to provide any information. The employees may receive the information about the new product from the insurance company a day later, but the insurance company has lost an opportunity to sell its product to interested customers on the day and caused dissatisfaction among them. This can reduce the reliability and credibility of an otherwise effective channel. All such issues could be identified and resolved by interviewing the intermediate customer. So, the management cannot afford to ignore communication with intermediate customers.

### Employee suggestions

Many employers are saving costs and even making profits by accepting invaluable suggestions from their employees. Under the suggestion programs implemented in most organizations, employees who give the best suggestion are rewarded through monetary or non-monetary benefits. Organizations can significantly improve the quality of customer service by implementing the good suggestions given by their employees as a part of the suggestion scheme. Employee suggestions have always helped service organizations in big way. In February 2000, the CEO of Southwest Airlines, Herb Kelleher, sent a personal letter to every employee of the organization, explaining the tremendous increase in fuel costs and the resulting threat to the organization's profitability. He also invited suggestions from them to cut other costs. Within six weeks of the CEO's invitation, employees came up with suggestions, which saved \$2mn for Southwest Airlines. American Airlines invests \$15mn in implementing the employee suggestion scheme and saves more than \$50mn annually.

Organizations also benefit from new and innovative suggestions from employees. The traveler's cheque, a service offered by banks throughout the world today, is the result of a suggestion given by a chauffeur. In 1928, the founder of Bank of America, A.P. Giannini responded to the suggestion of his chauffeur, that travelers needed a different kind of currency that was safer and easier to carry than cash, and initiated the concept of traveler's cheque. The airline food service is also the result of a suggestion by a Marriott restaurant employee. The restaurant was located near the Washington D.C. airport and one of the employees noticed that most travelers got their meal packed and carried it. The employee's suggestion resulted in the restaurant delivering pre-packed lunch packets on the tarmac. A tie-up with American airlines ensued and the rest is history.

For the employee suggestion scheme to be effective, the management should encourage employees to brainstorm on specific issues. Every idea given by an employee should be valued; no idea should be ridiculed. Once the suggestions are collected, the management should ensure that employees are given feedback on the status of implementation within a few days or weeks. In the absence of a feedback, employees will lose their enthusiasm and cease to participate actively in the program. Management should reward employees for suggestions that prove to be commercially profitable and encourage them to participate with enhanced enthusiasm. Some organizations are deploying advanced systems and technology to manage employee suggestions and ideas effectively (Refer to Exhibit 5.3).

**Exhibit 5.3**

**Employee Suggestion Program at BT**

British Telecom (BT) invites suggestions and ideas from its employees on how to improve its services. In the beginning, employees across the globe wrote/typed their suggestions on paper and mailed them to headquarters. All the papers were maintained in files. As the suggestions came in thousands, the process of evaluating and implementing the ideas and suggestions was slow and ineffective. Therefore, BT set up a separate department called BT Ideas, exclusively to receive and manage employee suggestions. An electronic database was used to manage the suggestions, but the system could only list the suggestions and index them. BT felt the need to have an IT solution to process, evaluate and implement suggestions efficiently.

In 1997, BT purchased a software application called HEAT from FrontRange solutions for BT Ideas. HEAT was being used by call centers to manage their problems. With the help of the software consultant from FrontRange, BT was able to modify HEAT to suit the specific requirements of BT Ideas. After the installation of HEAT, BT Ideas was able to manage ideas from multiple sources on multiple topics and evaluate, approve and implement them within a short period of time. HEAT also enabled employees to track the status of their suggestions, and managers to analyze the impact of the implementation of a suggestion/idea on the business. It could even compare the benefits of various suggestions.

Before the implementation of HEAT, BT Ideas took two to three weeks to even acknowledge to employees that their suggestion had been received. Ideas were evaluated and approved within ten minutes of their submission. The efficiency of BT Ideas encouraged employees to submit more suggestions. When BT solicited feedback from employees on the suggestion system, 85% of the employees expressed satisfaction. BT saved £ 30 million, £ 85 million and £ 36 million in 2000, 2001 and 2002 years respectively, by implementing employees' ideas and suggestions.

Because of the success of the suggestion system with employees, BT planned to extend the system to customers, partners and suppliers to derive dual benefits – save costs by implementing their suggestions and improve business relationships with them.

*Adapted from "Suggestion Scheme Saves British Telecom Millions," 2002 <FrontRange Solutions [http://www.frontrange.co.uk/documents/case\\_studies/casestudy\\_heat\\_british\\_telecom\\_wiredforideas.pdf](http://www.frontrange.co.uk/documents/case_studies/casestudy_heat_british_telecom_wiredforideas.pdf)>*

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**SUMMARY**

Many organizations spend millions of dollars annually on marketing research because it can be used for various purposes. Marketing research can help an organization improve the quality of its customer service, identify new service opportunities and gain a competitive edge over competitors. Service organizations can use different approaches to conduct market research. Some of these approaches are post-transactional surveys, customer complaint surveys, total market surveys and employee surveys. Post-transactional surveys are conducted immediately after the customer experiences service and the experience is still fresh in his mind. The management also tries to learn from the complaints and inquiries made by customers from time to time, in the forms provided at service outlets for the purpose. Total market surveys include interviewing all the customers including the existing customers of the organization, potential customers and competitors' customers. Employee surveys involve seeking the views and opinions of employees on the service processes and suggestions to improve them. The process of marketing research consists of six phases – defining the problem and the research objectives, selecting an appropriate scale to measure services, designing and implementing the research program, coding and tabulating data, interpreting and analyzing the research findings and reporting the findings.

## **Listening to Customers**

Unless the information collected from the market research is applied to solve problems or for other intended purposes, the time and efforts spent on research will become futile. As the consumer market is highly volatile, the information gathered at one time may become obsolete within a short period of time. So, the management needs to apply the results of marketing research immediately.

Upward communication plays a very important role in marketing research. It includes communication between the management and the employees and the management and the customers of an organization. There are different approaches to upward communication like executive visits to customers, the listening approach of the management, research on internal, intermediate and external customers and employee suggestions. Many service organizations across the world have benefited profoundly by listening to customers and employees.

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**Part III**

**Strategic Issues in Services Marketing**

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## **Chapter 6**

# **Market Segmentation and Targeting**

**In this chapter we shall discuss:**

- Market Segmentation in Services
- Bases for Market Segmentation
- Requirements for Effective Segmentation
- Process of Market Segmentation
- Market Targeting in Services
- Mass Customization/ Individualized Service

## Services Marketing

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

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

In this chapter, we shall discuss market segmentation in services, the bases used for segmenting markets, and how to segment the markets effectively. Further, we shall learn about the process of segmenting markets. We shall also discuss how to target the segments that are profitable for the company. Finally, we shall discuss the concept of mass customization.

## MARKET SEGMENTATION IN SERVICES

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

What constitutes a marketer's 'market segment'? A marketer's 'market segment' consists of his existing as well as prospective customers whose needs, desires, and expectations are different from the customers of other segments and match the resource-constraint set of the marketer. The resources and constraints of a marketer define the set of products/services that he can market for the consumption of the customers. Kotler and Armstrong defined a market segment as "a group of consumers who respond in a similar way to a given set of marketing stimuli" and market segmentation as "the process of dividing a market into distinct groups of buyers with



different needs, characteristics, or behavior who might require separate products or marketing mixes.”<sup>1</sup> As given in the definition, a marketer should identify and select a segment that he is confident of serving better than his competitors, given his resources and constraints and thus emerge as a leading player in that segment. Exhibit 6.1 shows the segmentation of the Indian insurance sector and how the private players are targeting the untapped rural markets.

### Exhibit 6.1

#### Segmentation of the Indian Insurance Sector

The life insurance market in India is divided into two customer segments: individual and corporate. The segment comprising individual customers is further divided into four sub-segments – protection, investment, savings and pension. Protection products offer the customer only protection from risk. They do not provide any savings facility to the policy holder. Investment products offer long-term investment growth and insurance cover. It was reported that in the individual insurance segment, the investment products segment was growing rapidly as it provided long-term investment growth and insurance cover. Savings products like endowment and money back policies provide a combination of protection and investment benefits. Pension policies are products offered to customers as income during their years of retirement.

The corporate segment is divided into three sub-segments – protection, statutory savings and pension. Group term insurance products provide low cost life insurance cover as part of employee benefit packages as a motivation to employees or to cover the housing/vehicle loan of the employee. The statutory savings segment comprises gratuity products for companies. The pension policies include products such as group superannuation, enabling a company to benefit from investment and the operational expertise of a specialist company to manage its funds.

Over the years, LIC has been catering to both the individual and corporate segments. Its individual insurance policies include Endowment Policies, Money Back Policies, Term Assurance Plans, Periodic Money Back Plans and Joint Life Plans. The corporate policies include group insurance schemes such as group gratuity schemes, group term insurance schemes, group savings linked insurance scheme and group leave encashment schemes. LIC provides a return of 7% on average on all its policies. Around 80% of LIC's premium income comes from endowment and money back policies.

Private insurers like AMP Sanmar have identified the untapped potential of the rural markets for insurance products and decided to target semi-urban and small towns by introducing simple and straightforward product features. AMP Sanmar has also decided that its product strategy should be to offer simple life insurance solutions to individuals, primarily aiming at wealth creation and risk protection. Birla Sun Life has also launched products meant for the rural population in order to capture a larger market share. Birla Sun Life Bima Kavach Yojana is a three-year single premium insurance cover available in denominations of Rs 50, 100 and 200, which offered 100 times the amount of premium paid in the event of the death of the insurer. HDFC Standard Life has also announced that it would design special products targeting the rural markets and the socially underprivileged sections.

*Adapted from “Life Insurance Marketing in India –(C), The Changing Product and Pricing Norms”, ICMR, ICFAI*

Market segmentation helps in the clear understanding of customer needs, and in keeping track of changes in customer expectations. In the earlier example, of the airlines, if it aims to exclusively serve the business travelers, it should identify their needs and expectations and develop a marketing plan accordingly. According to Ved

<sup>1</sup> Kotler, Philip, and Gary Armstrong. “Principles of marketing”. Seventh Edition, New Delhi: Prentice-Hall of India Private Limited, 1996.

## Services Marketing

Prakash Chaturvedi<sup>2</sup>, CEO of the Rs.2500 crore Tata TD Asset Management, market segmentation will get finer and there will be more products and services in the market. Infact, he says that Indians may even be able to invest in stocks abroad through the mutual fund route. The technological developments have now made it possible for the marketers to serve even the smaller segments of the market with very specific needs.

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

### Undifferentiated Marketing Approach

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

### Differentiated Marketing Approach

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

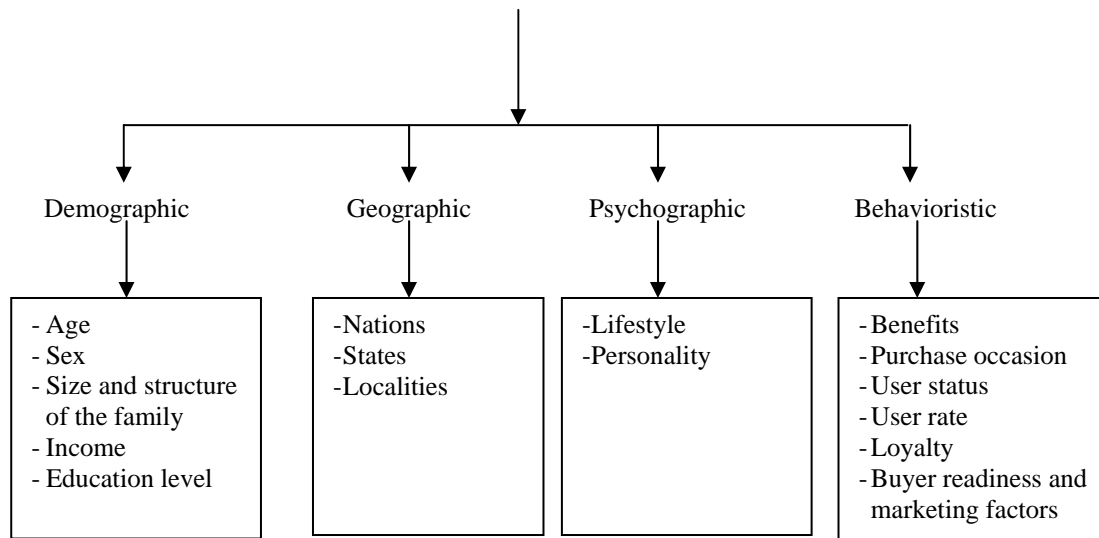
### Concentrated Marketing Approach

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

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<sup>2</sup> 'Face to face: Stocking it up'; Interview on [www.tata.com](http://www.tata.com), uploaded on 2 December 2003

**Figure 6.1: Bases for Market Segmentation**



### **BASES FOR MARKET SEGMENTATION**

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Markets can be segmented on the basis of demographics, geography, psychographics, and behavioral analyses of customers at large. Figure 6.1 gives a diagrammatic representation of the bases for segmentation. Let us discuss each of these bases in detail.

#### **Demographic Segmentation**

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

##### **Age**

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

##### **Sex**

Marketers can segment the market depending on the gender they would like to serve. Products or services can be designed for a single segment or both the segments. Exhibit 6.2 gives an example of how marketers from the travel industry segmented the traveler market on the basis of gender and how they are offering services to the woman traveler.

##### **Size and structure of family**

In India, the family size has decreased to just 3-4 members from 5-6 members a few decades ago. Therefore, marketers can design their products or services to serve the needs of families with 3-4 members while providing the flexibility to serve more

### Exhibit 6.2

#### Segmenting the Woman Traveler

Research shows that the number of women CEOs in 2004 increased to six from the two in 2000 and only one in 1995. The number of women climbing up the corporate ladder is on the rise. This means that the number of women traveling for business purposes is also increasing. What are the implications of this for service providers in the hospitality industry? Is it easy to impress this segment of business travelers compared to their male counterparts? Do they have specific needs when they are staying out of home? Let us find out.

Women are more concerned about their physical safety and they are even ready to pay more for a comfortable and secure place to stay during a business trip. The Park, The Oberoi, The ITC Sheraton, The Orchid and The Taj are examples of hotels in India that have special sections in their hotels to accommodate woman business travelers. These hotels have developed various measures to ensure the safety of their women customers. For example, The Orchid's 'Eye' is a hi-tech security system that records all the actions taking place on the floor and alerts the security personnel when necessary. Further, The Orchid maintains a key card system that can retrieve the data of the last 100 entries into any room in the hotel. Similarly, The Park has electronic key cards that record the timings when a room is opened or shut. Another luxury hotel, The Taj President in Mumbai, contains videophones attached to its women executives' rooms and it makes sure not to allot an interconnecting room to a single woman traveler.

What do woman business travelers look for more than safety? Most of women business travelers aim to strike a balance between work and pleasure. This is where the opportunity for the service providers lies. Most hotels design their women's rooms with a feminine touch. They host a basket of hair and cosmetic products of well-known brands to appeal to the women executives. Biotique at The Oberoi, the Taj President, the Orchid and Lakme at the Taj Land's End are some of the known brands hosted by the hotels.

Some hotels have designed a low-cal menu for their calorie conscious, dynamic women customers. Many hotels have spas and offer a variety of massages to soothe the nerves. In addition, hotels are offering cookery classes to polish the culinary skills of their women guests. Some hotels even serve home-cooked food to their customers.

*Adapted from "Wooing the Woman Traveller", fe Business Traveller, March 2004*

members if required. Further, with the increasing educational and job opportunities in cities, young individuals are moving to the cities and marketers have an opportunity for designing their services accordingly. For example, a restaurant can plan its seating arrangement by having more tables that can accommodate four members, and yet be flexible enough to be combined when they have to serve more than four customers.

#### Income

Income is one of the most important bases used by marketers to segment the market, as it determines the buying power of the customer in most cases. Studies show that as income increases, customers tend to spend more on luxury goods or services, and their spending on basic necessities as a percentage of total spending decreases. For example, an individual's ability to visit a health spa or an expensive restaurant depends on his income. The data on income becomes more reliable if the family income is taken into account rather than an individual's as more and more families have become dual income families.

#### Educational level

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

### Geographic Segmentation

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

### Psychographic Segmentation

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

#### Life-style

Marketers can gain valuable insights into the buying behavior of their customers by analyzing their lifestyles. Exhibit 6.3 shows how leading handset manufacturers segment the Indian market based on the lifestyle of their customers. Further, they will be equipped with an understanding of their customers' way of life, their activities, interests, opinions and beliefs. This in turn will help them design their products or services accordingly. This type of segmentation also helps marketers to effectively design their marketing mix for the customers. For example, the lifestyle of a young and single professional will be entirely different from that of a person who has just retired from service. In this example, the young professional might be more keen on spending than saving, while the retired person might think of investment options that will provide him with a steady income.

#### Personality

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

### Behavioristic Segmentation

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

### Exhibit 6.3

#### Segmenting the Big 3 Way

Industry observers attribute the success of handset manufacturers, especially in India, to shrewd market segmentation. The big three of the mobile handset market - Nokia, Ericsson and Motorola, have studied the market and segmented it as shown below.

Nokia, arguably the biggest player in the world, has divided the market basically into four segments:

- **Hi-fliers:** The biggest segment for Nokia consists of 'Hi-Fliers', corporate executives who use a mobile phone to increase productivity at work. Aged between 25-45, the segment looks for data transmission and other business-related features. In most cases, the employer of these executives sponsors the handset, so price is not a major consideration.
- **Trendsetters:** In any technology adoption cycle, the first segment to adopt an emerging technology is dubbed as 'the early adopters'. Nokia calls these early adopters 'Trendsetters' and they are the most receptive to advanced models. This was the segment at which WAP-enabled models were aimed.
- **Social contact:** The third segment for Nokia is the upwardly mobile, socially-conscious segment that uses a mobile to stay in touch. Today's youth and affluent housewives constitute this segment.
- **Assured:** The fourth and last segment as defined by Nokia comprises CEOs, high-profile celebrities, industrialists and other high "net worth" individuals. The fact that the members of this segment cannot do without a mobile phone makes it the 'assured' segment.

Motorola has a segmentation model which is quite similar to that of Nokia.

- **Accompli:** Early adopters (Trendsetters in Nokia) are referred to as Accompli by Motorola and all advanced models are aimed at this segment.
- **Timeport:** This segment, similar to Nokia's Hi-fliers, primarily uses the mobile phone to enhance productivity at work and in business.
- **Talkabout:** This segment again is similar to Nokia's Social Contact segment, which uses the mobile phone predominantly to keep in touch.
- **V:** Individuals who view their mobile phones as an extension of their personality and, therefore, prefer a model that makes a strong statement, define the V-segment.

Ericsson has a straightforward and simple segmentation.

- **A-Segment:** Individuals who are using the mobile for the first time and prefer an easy-to-use instrument are classified under the A-segment. This is primarily the entry-level segment.
- **R-Segment:** Similar to Nokia's Trendsetters and Motorola's Accompli, this segment comprises tech-savvy individuals who prefer their instruments to be feature-rich and trendy.
- **T-Segment:** Finally, the T-segment is defined by individuals who require their instruments to have some class and style. Similar to Motorola's V, users view the handset as an extension of their personality.

Source: [http://www.themanagementor.com/kuniverse/kmailers\\_universe/mktg\\_kmailers/0702\\_6.htm](http://www.themanagementor.com/kuniverse/kmailers_universe/mktg_kmailers/0702_6.htm)

#### Benefit segmentation

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

### Purchase occasion segmentation

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

### User status segmentation

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

### Usage rate segmentation

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

### Loyalty segmentation

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

- *Hard – core loyalists:* Customers who always use a specific brand of service and who refuse to switch on to any other brand, are known as hard-core loyalists. This behavior is exhibited mostly by cigarette smokers, newspaper readers, etc. For example, an avid reader of The Hindu, who does not think of shifting to The Times of India or any other daily, is a hard-core loyalist.
- *Soft – core loyalists:* Customers who are loyal to two or three brands of product or service are known as soft-core loyalists. Marketers attempt to develop strategies that shift customers from being soft-core loyalists to hard-core loyalists. For example, a customer who does not mind reading The Hindu or The Times of India or The Indian Express, is a soft-core loyalist.
- *Shifting loyalists:* Customers who shift their loyalty from one brand to another every now and then are known as shifting loyalists. For example, a person who was loyal to The Hindu till recently shifts his loyalty to The Times of India and might shift to The Indian Express soon. There is a possibility that he might shift back to any of these newspapers in the future.

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- *Switchers*: Customers who are not loyal to any brand and are equally comfortable with any brand are known as switchers. For example, a person who does not have any preference and reads any English daily depending on the availability is an example of a switcher.

### Buyer readiness and marketing factors

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

## REQUIREMENTS FOR EFFECTIVE SEGMENTATION

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

### Measurability

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

### Accessibility

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

### Substantiability

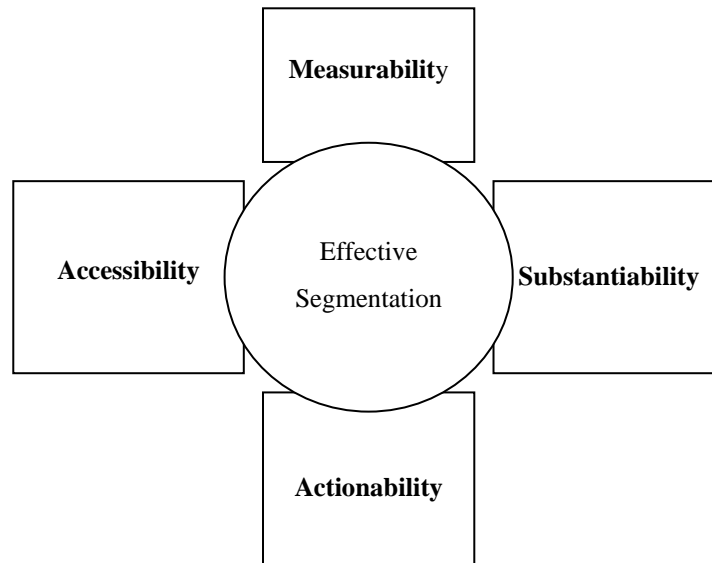
Marketers should choose their market segments in such a way that the returns on investment are earned quickly. For example, a very niche segment like young graduates working in shifts (especially those in the BPO and related sectors), might not be a good choice. Ideally, a large segment that has the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

### Actionability

This refers to the ability of firms to effectively design and manage marketing mixes in order to attract and serve different segments. Marketers should use those bases that can track the segments with varying preferences or needs. Further, these segments should exhibit variations in their market behavior and respond differently to marketing mixes that are designed on an individual basis. Refer to Figure.6.2 for an illustration of these requirements.



**Figure 6.2: Requirements for Effective Segmentation**



### **PROCESS OF MARKET SEGMENTATION**

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

#### **Identifying Customer Segments**

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

Identifying customer segments helps the marketers in designing, promoting, delivering or pricing the service for each segment. It basically helps them in identifying the marketing mix for each segment. For example, when a financial services firm segments the market based on income and benefits and realizes that more and more middle-class families are opting for mutual funds as an investment option, it can plan to cater to this segment by entering the mutual fund market. Each segment may have different preferences – while some may be price oriented, others may be quality or brand oriented. Therefore, marketers should find the existing similarities in the purchasing patterns of the target segments.

### Exhibit 6.4

#### Airtel's Magic

In 1992, Bharti entered the cellular market by launching its services in Delhi. It subsequently launched Airtel as a post-paid cellular service in Delhi in November 1995. Over the next few years, the company redefined the way cellular services were being marketed in the country. This was made possible due to its innovative marketing strategies, continuous technological upgradations, new value added service offerings and efficient customer service. Initially confined to the Delhi circle, Airtel's services were soon extended to many other places.

Bharti also decided to introduce a tariff plan (specifically) to attract the youth. The service, called Youtopia, planned to cash in on the fact that with reduced tariffs, cellular phones would become accessible to teenagers. By targeting youth in the age-group 14-19, Bharti planned to expand the customer base, which was limited to the older age groups. Youtopia was a clear deviation from Airtel's earlier positioning as a brand for older people symbolizing dignity and power.

Youtopia offered lower tariff rates at night. Special merchandising exercises were also undertaken. For instance, a special portal was created, at which young people could buy or bid for goods. The company also announced plans for providing customers with various other services such as music download facilities, and SMS (Short Messaging Service) rates at affordable prices.

Further, to tap the youth market, Airtel launched a Magic card in 2002 and many cricketing and film celebrities promoted the brand. The Magic card is a symbol of success, targeted at the teenagers. In August 2003, Airtel tied up with Music Television (MTV) and launched a MTV-Airtel pre-paid card to tap the 15-24-year-olds. This card offers special happy hours, ring tones, reduced night tariffs, and group SMS to present the brand as a 'cool' one in the minds of young consumers.

*Adapted from Rina Chandrand, "Selling to the young", The Hindu – Business Line, August 28, 2003; and "Airtel – Positioning (And Repositioning)", ICMR, ICFAI.*

### Developing Measures for Structural Attractiveness

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

### Selecting Customer Segments

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

## MARKET TARGETING IN SERVICES

Targeting follows market segmentation as a natural step and is defined as the process of estimation and comparison of the previously identified segments for selecting one or more segments that fetch the best results for the business. The chosen segments should be the most profitable for the company and should also help in delivering superior value to the chosen customer base. Exhibit 6.4 shows how India's premium cellular company targets its young customers.

## Market Segmentation and Targeting

Marketers compare the segments based on their attractiveness in terms of their ability to earn and sustain profits, and their compatibility with the objectives and resources of the company. For example, a fitness and beauty center that targets young women who are figure and health conscious is likely to earn more profits than just offering services to women of all ages.

Targeting is an essential part of marketing because of its ability to group customers with similar needs and serve them even at individual levels. Lately however, targeting has been exposed to some criticism on ethical lines and this is due to its intense focus on certain customer groups without considering aspects like product harmfulness and consumer vulnerability. For example, companies that are manufacturing products like weight-loss pills that are targeted at the figure conscious women segment are being criticized for the side effects of such pills. Researchers say that the purpose for which targeting is used has certain limitations and it should be used keeping customer safety and well-being at the top of the priority list.

### On What Basis do Marketers Target the Identified Segments?

We shall now discuss the criteria used by marketers to evaluate market segments for targeting. To a large extent, marketers use segment size and growth potential, its structural attractiveness, and the company objectives and resources as the bases to decide their target markets.

#### Segment size and growth potential

The size of the different segments in the market should be compared on the basis of their present capacity and their future potential as well. For example, an educational institution should collect the current data for full-time students, part-time students, and distance-education students and then compare the data based on their ability to earn profits for the institution to choose its target segment. On the other hand, if the segments are not large enough or currently not profitable, the institution should go a step further to identify which segment has high growth potential, and would be beneficial for it in the long-run.

#### Structural attractiveness

Assessing a segment's structural attractiveness involves analyzing the present and potential competitors, substitutes of products or services available in the market and the relative power of suppliers and buyers. Marketers should first analyze the segment attractiveness on the basis of its present and potential competition. It is generally advisable for companies to avoid targeting segments with established competitors as these segments are less attractive. For example, the proposal to open a 5-star hotel may not prove to be very attractive in a city where major hotel chains like ITC and Taj Group have established and popular hotels.

Marketers should also examine the availability of substitutes in each segment as the presence of substitutes for a product or service will restrict the prices as well as the profits of the segment. A strong presence of substitutes in a particular segment will, therefore, obviously decrease its attractiveness. For example, a person who has to travel from Hyderabad to Mumbai may travel by bus, train, or private vehicle like a car, or by air. Now, a marketer who wants to operate a private bus service between these two places should examine the probability of the passengers traveling by other modes of transportation. If there are more business people and executives traveling between these two places, they might prefer to travel by air as the time factor is more important for them. Similarly, those who cannot afford the air travel may prefer the comforts of a train.

Further, marketers should also observe the relative power of suppliers in each segment and their ability to control the prices of a particular product or service, or the quality or quantity of goods and services produced in that segment. A segment is said to be

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less attractive when the supplier power is high. The supplier power is said to be high when there are few substitutes and when they supply an important product or service to the segment. For example, when a small firm enters the IT business as a services company that caters to the lower-level needs of its customers, it might do well. When it tries to upgrade itself to cater to the specialized IT needs of its customers, it might realize that it is not in a position to afford to employ those with the requisite skills. The employees in the IT field with the specialized skills may be in great demand and, therefore, enjoy a good bargaining power.

Last, segment attractiveness is also affected by the relative power of buyers, whose strong bargaining power may control the prices. Further, buyers possess the power to demand a superior quality of products or services. This situation increases the competition between the players as they try to produce better quality products or services than their competitors in order to attract new customers and retain existing ones. However, this situation might affect the profitability of the players in the industry.

### Company objectives and resources

Evaluation of a segment alone, based on its size, growth potential and structural attractiveness is insufficient while choosing the target segment. It is essential that the segment features match the company objectives and resources. A segment should match the company's long term objectives in terms of its growth potential and structural attractiveness, and the company should have the required human, financial and other resources necessary for effective operation in the segment. For example, an airline that aims to serve the business class and to top the list in the business traveler segment nationally and internationally, should have the necessary resources to serve the needs of business travelers. It might need to have the requisite number of trips between business destinations and the ability to operate smoothly at peak business hours and other similar facilities.

## Targeting Strategies

Once the segmentation exercise is complete and the company has completed the analysis of the different segments in terms of their attractiveness, growth potential and their fit with the company objectives and resources, it has to identify how it is going to target the segments. The company has to decide on its target and the strategy to be adopted. A firm may use any of the following targeting strategies discussed below:

### Single-segment strategy

This is also known as the concentrated approach of targeting the market segments. The firm following this approach targets only one segment, develops a single marketing mix and eventually gains specialization in that segment. However, the company will have immense knowledge about the specific wants and needs of the customers and eventually serve them better than those targeting various segments. For example, a software firm catering to the needs of only those players in the logistics business, understands their needs better and gains greater expertise, when compared to a firm that caters to all segments.

### Selective specialization

This is also known as the differentiated approach and involves targeting more than one segment. The company prepares different types of marketing mixes for different segments, which may or may not be related to the same product or service. Marketers following this strategy adopt different promotional and distributional channels to target each segment. For example, a financial services firm might concentrate on products for the retired people and the working woman. The firm might design two different products targeted at these two segments.

### Product specialization

A company adopting this strategy offers a single product or service to various segments. For example, a conference hall in a hotel might be used to conduct corporate meetings, celebrate family occasions, or arrange student get-togethers, depending on the needs of the segments.

### Market specialization

A company adopting this strategy aims to meet the various needs of a target segment. The target segment for this group remains the same and the company tries to cater to the different needs of the segment by offering products or services across different categories. For example, an educational institution that offers a wide range of courses in commerce, science, arts, etc. serves the different needs of the student community that has completed high school.

### Full-market coverage

A company that adopts this strategy aims to offer various products or services to the entire market. There are two ways for a company to implement this strategy. One way in which it can serve the entire market is by adopting a mass marketing strategy, where only one undifferentiated marketing mix is developed. The other way is to develop a differentiated marketing mix for each segment and thus cover the entire market. For example, when a Hindi movie is released in the open market in India and abroad with English subtitles, a mass marketing strategy is adopted. However, when only the CD of the movie is released for the overseas market with the local language subtitles, it is an example of adopting a differentiated marketing mix to cover those segments of the market.

## MASS CUSTOMIZATION

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Mass customization is all about meeting an individual customer's needs by manufacturing a product or offering a service in a cost-effective manner. Mass customization is defined as the process of offering customized products or services to individual customers by using flexible processes, without foregoing the advantages of mass production. It requires modifying product structures and adopting new technologies.

### What are the Factors that Companies Need to Consider Before Adopting Mass Customization?

- Companies should first understand their customers' opinion about customization of the products or services. If the customers are not keen on customization, then a company needs to think over its decision to customize its services.
- Secondly, companies should assess their ability and the extent to which the existing processes and technology can offer customization. They should also estimate the need for any further investment to modify the processes in the future. They should analyze the information available regarding customer needs and their marketing department's ability to cater to these. Further, companies should also assess their process design and their capacity to turn customer needs to actual specifications. Finally, a company should evaluate the degree of flexibility in its existing systems to accommodate mass customization according to the nature of the product or service.
- Companies should also analyze if they are the pioneers in the industry in adopting mass customization and if that is the case, how much time their competitors will take to catch up. The company should assess the advantages and disadvantages of

## Services Marketing

- being the front-runner. A company should also assess the reaction of a competitor's customers and thereby the competitive advantage to the company.
- Finally, a company should assess its culture and internal resources to adapt to the changes brought in by adopting mass customization. If there is a need for organizational change, then the company should take the necessary initiatives in developing the employees through effective leadership and change management. This should obviously be supported by sufficient financial resources.

### What are the Various Approaches to Mass Customization?

In order to effectively redesign the processes, products or business units for mass customization, a company should follow certain approaches. Gilmore and Pine have identified four approaches to mass customization. They are collaborative, adaptive, cosmetic, and transparent customization. Further, they have suggested that marketers can use a mix of any of these or all of these approaches to serve their customer segments. Let us now discuss these approaches in detail:

#### **Collaborative customization**

This type of customization aims at helping customers who are not comfortable at selecting from a wide variety of options available. Companies adopting the collaborative approach conduct interviews in the first phase and help the customers express their needs. The second phase involves identifying available products or services that are offered by the company, which can fulfill those needs. The final phase involves designing customized products or services for the customers, if there are none in the existing portfolio. For example, Dell Computer designs computers according to its customers' specifications and makes changes in the configuration and the outlook of a computer.

#### **Adaptive customization**

Companies offering adaptive customization develop a standard product or service that can be altered by the customers to match their specific needs. This means companies neither change the product/service nor the packaging, but they enable their customers to make the changes in the functioning of the product or service according to their needs. Improvements in technology have come to nullify the difficulty involved in customers making the changes in products or services to suit their needs. For example, McDonald's offers wide choices of fast-food items according to the tastes of customers in various countries. Customers have the choice of changing the toppings of a pizza, or order for a small burger, etc., and they can even celebrate birthday parties at McDonald's.

#### **Cosmetic customization**

Companies adopting cosmetic customization offer the same product or service to all customers, but with a different packaging as chosen by individual customers. In other words, cosmetic customization changes only the packaging or presentation of the product or service, not the product itself. For example, a training institute might offer the same course content to everyone but it can cosmetically customize the course to its students by altering the class schedules and duration of the course to match individual needs.

#### **Transparent customization**

Companies adopt this type of customization when customers' needs are predictable and they are not willing to express their needs repeatedly. Companies offer customized products or services from a standard package and serve according to individual needs. For example, The Ritz-Carlton hotel maintains a customer database and uses this information to offer customized services individually.

## Market Segmentation and Targeting

Companies may adopt any of the four approaches discussed above to mass-customize their products or services. However, successful mass customization is possible only if companies clearly understand the basics of mass customization. A mass customization strategy of one company may not suit the another company. Therefore, a company should customize its strategy to suit its customers, production capacity, competitive situation and the new technologies available to it. The fruits of mass customization are available in the form of customer loyalty, productivity, profitability, and market leadership.

### SUMMARY

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Companies have realized that though no two customers have the same preferences or needs at the same time, some of their purchasing patterns are similar. Therefore, marketers identify groups of customers who exhibit similar needs and offer products and services to these groups. Marketers call these groups segments. They segment customers on the basis of geographics, demographics, psychographics, or on behavioral characteristics.

After segmenting the market, marketers analyze each segment on factors like profitability, compatibility, competitive advantage, and growth potential. A thorough analysis of these factors gives the marketer an idea of whom to target or which customer segment to target. There are five strategies to target a market segment. These are single-segment strategy, selective specialization, product specialization, market specialization, and full-market coverage. Further, marketers develop various marketing mixes for different target segments by adopting any of these targeting strategies.

A new topic called mass customization has evolved from the customers' desire to purchase products or services that can satisfy their individual needs. Companies enjoy the advantages of mass production by adopting mass customization. At the same time, they satisfy the needs of individual customers. Companies that want to survive in the global environment have no other way but to accept and adopt mass customization to some extent, depending on their operations and resources. Marketers are developing new standards in customization to delight their customers.

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## **Chapter 7**

# **Positioning and Differentiation of Services**

**In this chapter we will discuss:**

- Definition and Concept of Positioning
- Positioning Strategies
- Value Chain in Services
- Differentiation of Services
- The Role of Positioning in Marketing Strategy
- Steps in Developing a Positioning Strategy

## Positioning and Differentiation of Services

*"Positioning is not what you do to a product. Positioning is what you do to the mind of the prospect."*

- Al Ries and Jack Trout, Advertising Age, 1972.

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

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

In this chapter, we shall discuss the definition and concept of positioning and the concept of the value chain in services. Later we shall learn how to differentiate a company's products or services from those of its competitors. We shall also discuss the role of positioning in marketing strategy. Finally, we will learn the steps involved in developing a positioning strategy.

### DEFINITION AND CONCEPT

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"Positioning is defined as the process of establishing and maintaining a distinctive place in the market for an organization and/or its individual product offerings."<sup>1</sup> Positioning involves a company's products/ services creating and occupying a place, in the minds of its customers. It also gives an account of the important attributes or characteristics preferred by target customers, when compared to a competitor's offers. Marketers should analyze the current position occupied by their firms in the (present and prospective) customers' minds and take necessary steps to create a distinct and effective position. For example, McDonald restaurants have loyal customers all over the world and this is due to the unique position it occupies in its customers' minds either due to the products offered or for its prompt and efficient service.

Hooley and Saunders describe the major issues in developing a marketing strategy as, "the identification of target market or markets, the customers that the organization will seek to serve and the creation of a differential advantage, or competitive edge that will enable the organization to serve the target market more effectively than the

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<sup>1</sup> Lovelock, Christopher H. "Services Marketing". Third edition, New Jersey: Prentice Hall Inc., 1996

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competitor”.<sup>2</sup> According to Peter Doyle, “positioning strategy is the choice of target market segments, which determine where the business competes, and the choice of differential advantage, which dictates how it competes.”<sup>3</sup>

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

## POSITIONING STRATEGIES

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Positioning is a very important aspect of marketing a product or a service. The three broad positioning alternatives as suggested by Michael Porter are as a product differentiator, as a low cost leader or as a nicher<sup>4</sup>. He also suggested that firms should concentrate on one single strategy and excel in that rather than trying to be good at everything. According to him, when companies try to do this, they lose focus and are beaten by firms which have excelled in positioning themselves based on one single strategy.

These broad frameworks provide the firm with the basic foundation on which to build their positioning. Firms should look at strategies for specific positioning. These specific positioning strategies can be based on an attribute or benefit of the service or the consumer or competitor of the service. Some of these specific strategies are discussed below<sup>5</sup>.

- Attribute positioning: A service provider positions itself based on an attribute or a feature. For example, Malayala Manorama positions itself as the No.1 daily in India with the most number of readers and Allahabad Bank positions itself as the oldest bank in India. However, positioning based on a feature or an attribute may not work too well for some services.
- Benefit positioning: Most service providers resort to benefit positioning as the general psyche of the customer is to analyze the benefit that he derives by using a particular service. For example, banks like ICICI and Citibank offer facilities like ATMs and internet banking to their customers.
- Use/application positioning: The service is positioned as the best for a certain application. For example, SBI positions itself as the best in the business where educational loans are concerned.
- User positioning: The service is positioned for a specific target group of users. For example, India positions itself as the destination for tourists seeking inner peace.

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<sup>2</sup> Graham Hooley and John Saunders, *Competitive Positioning: The Key to Market Success* (London: Prentice Hall, 1993), p. xi.

<sup>3</sup> Peter Doyle, *Marketing Management and Strategy* (London: Prentice Hall, 1994), 79.

<sup>4</sup> Michael Porter, *Competitive Strategy*, New York: Free Press, 1980

<sup>5</sup> Philip Kotler, *Kotler on Marketing*, New York: Free Press, 1999

## Positioning and Differentiation of Services

- **Competitor positioning:** The service is positioned by the provider against a competitor's service offering. For example, IIPM positions itself against the IIMs. Its ad says, "Dare to think beyond the IIMs."
- **Category positioning:** The service provider positions itself as the category leader and becomes synonymous with the service. For example, Essel World became synonymous with an entertainment park in India till more such parks were started across the country.
- **Quality/price positioning:** A service is positioned in the market as possessing a certain quality standard or at a particular price. For example, some of the Oberoi-Hilton hotels are positioned as high quality, high-price hotels. The Taj group is trying to position some of its hotels in the 'value for money' category.

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

## VALUE CHAIN IN SERVICES

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The concept of value chain management was first introduced by Michael Porter in his book 'Competitive Advantage: Creating and Sustaining Superior Performance (1985)'. The idea behind this concept was that an organization is not a mere collection of machinery, people, equipment and money that aims to manufacture and deliver products and services. Rather, all these activities are interrelated and dependent on each other and will produce the best results when a good communication network exists among them. Therefore, all the above resources should be arranged into systems and activities that will help in gaining a competitive advantage.

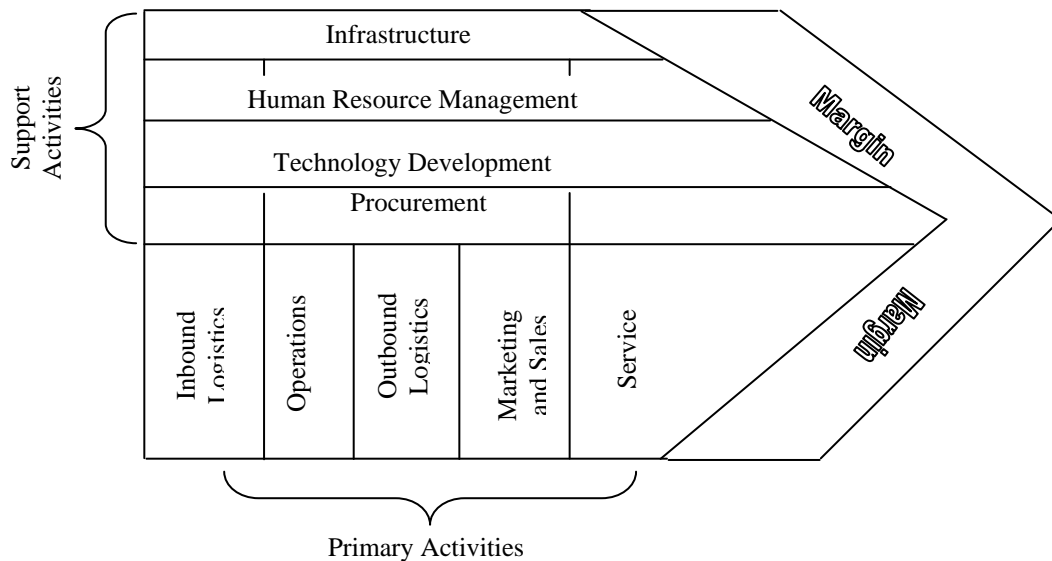
According to Porter, the activities carried out by any organization can be grouped into primary and support activities depending on the type of products or services offered by the organization. The purpose of both the primary and support activities is to create a profit margin by adding value that is more than the cost of offering products/services.

Today's organizations stress on leveraging on the core activities by outsourcing the rest. Even manufacturing, earlier considered to be a core activity, is outsourced by many organizations. The stress is also on delivering the value chain advantages to the end customer. Organizations feel that by outsourcing many of their non-core activities, they can concentrate more on their core activities, and thereby deliver better service to the consumer. This is one of the basic factors of evaluation of a value chain.

Figure 7.1 gives a pictorial representation of the value-chain of an organization as designed by Porter. To ensure that an organization receives a certain amount of profit margin, the value chain analysis should be performed and it should cover the entire value system where it operates. An organization can follow the steps mentioned below to perform the value chain analysis:

- First, an organization is required to analyze its own value chain. This might involve assessing the costs related to each activity.
- Later, the customers' value chain has to be evaluated i.e., an evaluation of how well a company's product or service fits in with the customers' value chain.

**Figure 7.1: Value Chain of an Organization**



Source: Porter, Michael. *Competitive Advantage: Creating and Sustaining superior Performance*. New York: The Free Press, 1985.

- Further, an organization should identify ways to obtain cost advantages when compared to their competitors.
- Last, an organization should identify and implement ways that will enhance the value for the customer either by reducing costs or by increasing performance.

Every organization in an industry tries to increase its margin by using its market position and negotiating power. Companies can gain either a cost advantage or a differentiation advantage when they clearly understand the relationship between all the activities and then make a decision regarding outsourcing or manufacturing products or services.

Another way of analyzing the value chain is by analyzing the value added to the process of service or product production till it reaches the end customer. For example, each function or activity adds value at different stages to the production process. The supplier, the manufacturer, the service provider and the service-seeker, all have a distinct value chain, but they are all interrelated. The network that maximizes its overall benefits does better than an individual firm that concentrates on its value chain.

If a product or service adds very little value to the customer, it is said to be at the lower end of the value chain of the customer. On the other hand, if it adds great value to the end-customer, it is said to be at the higher end of his value chain. The best example to understand the concept of the value chain is the Indian IT industry. Indian IT services companies which were operating at the lower end of the value chain, have moved up from coding, migration and testing to design, analysis and project management. Customers now view Indian companies as providing higher value-added services, and this will help the Indian IT industry retain its strong hold on the global IT market.

### Exhibit 7.1

#### Satyam's i-way

Sify is a part of Satyam Computers Pvt. Ltd. (Satyam), one of India's premier IT companies. Sify launched its cyber cafes in the metros first to tap the largest segment of Internet surfers (or 'Netizens,' as it called them) through its iWay centers, and provided cyber cafe visitors with a whole new experience of browsing the Internet. Unlike the ordinary crowded cyber cafes, iWay centers provided a soothing ambience and friendly service. The iWay centers sported a plush look and had ergonomically designed cubicles that were sufficiently closed to provide adequate privacy to browsers. iWay customers were also provided with many value-added services such as pizza delivery in their cubicles.

To differentiate itself from the browsing centers in the unorganized sector, Sify decided to concentrate on offering quality services to its customers. The company not only offered basic Internet browsing services to its customers, but also took various proactive measures to 'delight' them. Sify made sure that the iWay centers were neat, spacious, air-conditioned and offered adequate privacy to browsers.

The company's USP was providing a complete Net experience with high-speed connectivity. Apart from providing a good ambience, Sify used high-speed access technologies (all cafes were linked on a leased ISDN line) that were continuously updated, to provide high-speed connectivity and faster downloads. The latest software applications were loaded on the PCs to provide users with a 'complete internet experience.' Unlike the unorganized sector cyber cafes, a majority of iWay web stations were multimedia enabled thus allowing voice chats. The users could also customize their browsers, enabling links to their home page/favorite pages.

iWay centers also provided a wide range of add-on services like printing, scanning, CD writing, and video-conferencing to make the entire experience comprehensive. Refreshments were also provided at these centers. Sify also planned to introduce services like ATMs and even sell Sify Internet products at the centers. This was done to make the typical iWay outlet much more than that a browsing center.

To further differentiate iWay from other browsing centers, Sify decided to offer a host of value-added services to its customers that would enhance their surfing experience. For this, the company took the route of offering customized promotion packages to Indian corporates to market their products through iWay. As a result, iWay began selling products like greeting cards, books, music tapes, online education, customized software/content and e-commerce fulfillment solutions.

*Adapted from "SatyamIway", ICMR, ICFAI.*

## DIFFERENTIATION

As mentioned earlier, the differentiated advantage of an organization will add to its profit margin. In fact, with today's cut-throat competition, companies should differentiate their products / services from those of their competitors to survive in the market. A company can use various differentiation strategies when it aims to uniquely position its products/services in its customer's mind. Exhibit 7.1 gives an example of how an Internet service provider has differentiated its services from the rest in the market. The first step towards differentiation is to decide the number of benefits and attributes on which a firm wants to differentiate its products/services from those of its competitors. For example, a hotel offering free pick up and drop facility at the airport is differentiating its service based on the convenience and price factors as the customers have to hire a taxi otherwise.

A firm is said to have achieved a differentiated competitive advantage when its customers perceive that the service offered by it is different from that of its competitors on the basis of any of the elements of the marketing mix viz., product/service, price, promotion, and distribution. Differentiating attributes for a product/service should meet the following criteria:

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- *Important:* Customers in the target group view the difference offered by the firm as very important and attach high value to it.
- *Distinctive:* The product/service attribute offered by a firm is not offered by its competitors, or the value of the differential attribute offered is unique when compared to that offered by its competitors.
- *Superior:* The firm makes the product/service an obvious choice for the customers to opt for, as no other firm offers the differential benefit in such a way.
- *Communicable:* The difference in the offer of the firm should be easily explained and communicated to the customers.
- *Preemptive:* The difference offered by a firm should be such that it cannot be copied by its competitors easily.
- *Affordable:* Customers should be able to pay for the difference in service/product being offered by the firm.
- *Profitable:* A firm should be able to offer the difference to the customer without losing out on its own profitability.

Offering differentiation to service customers is a major challenge to the service providers because of the intangible nature of services. Therefore, companies use their reputation in order to differentiate their services from that of their competitors. For example, McDonalds has a global presence and when it is entering a new market, it can use its reputation to attract the customers. On the other hand, the service personnel can also create differentiation of service in the minds of customers. For example, customers can easily differentiate between the services of a pleasant, well-mannered customer care executive at a bank and that of a harsh and ill-mannered customer care executive.

Another challenge for service providers is to sustain the differentiation advantage by not allowing competitors to imitate the advantage. Therefore, service providers should choose differentiation strategies that cannot be copied by competitors easily.

## ROLE OF POSITIONING IN MARKETING STRATEGY

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Positioning a product or service is considered an important aspect of developing a successful marketing strategy. The positioning strategy makes it possible for an organization's products or services to occupy a unique place in the minds of its target customers. This helps to improve an organization's market share and revenues as customers prefer its products or services to those of its competitors. However, positioning of services is perceived as being difficult when compared to positioning of products.

As we have learnt earlier, services are intangible in nature and this aspect makes it all the more difficult for service organizations to attract and position their services in customers' minds. Therefore, service organizations try to market their services with the help of tangible evidence to some extent. To understand the role of positioning, let us discuss the importance of positioning for a service like tourism. For example, in the case of a tourist destination, the tangible aspects may be the beaches, the ethnic local cuisine, the special camel ride, etc., which are actually used to attract customers. A right marketing mix of tangible evidence and intangibles for differentiation will produce better results.

A tourist destination may have to do some research to find the right mix. The most important aspect in this research is to peep into the minds of the target market and learn their needs, preferences and expectations and identify the tangible evidence that satisfies them. In other words, a tourist destination should gather information on the attributes on which tourists base their decision to visit a certain place. For example, a



## Positioning and Differentiation of Services

place with facilities for shopping, dining out, sightseeing, guided tours, etc., coupled with reasonable pricing, may attract a large chunk of the tourist market. In addition, it is also important to learn how customers weigh the services of one tourist destination against competitors. This kind of knowledge will help a tourist destination position itself attractively in the customers' minds, when compared to its competitors.

The success of most of the companies is decided by the position they occupy in their customers' minds. The image of an organization, the features associated with it, and how different they are from that of their competitors, work effectively only when the customers also perceive them the way the company wants them to. Therefore, it is an important aspect and marketers should take due care while formulating and communicating a positioning strategy.

### STEPS IN DEVELOPING A POSITIONING STRATEGY

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

#### Determining Levels of Positioning

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

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

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

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

#### Identification of Attributes

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

- Customers often base their decisions on the unique features offered by the product *class*, as example, a hotel offering a free sauna bath or massage to its customers as a complementary gift.
- Customers consider the specific *uses* fulfilled by the products/services offered by a particular company. For example, insurance products that also serve as an investment option.
- Customers also base their decisions on the *price* of the product/service in comparison to the perceived delivered value. For example, a student might not mind spending a huge amount on getting an MBA degree as he perceives it to be a guaranteed path to a bright future.

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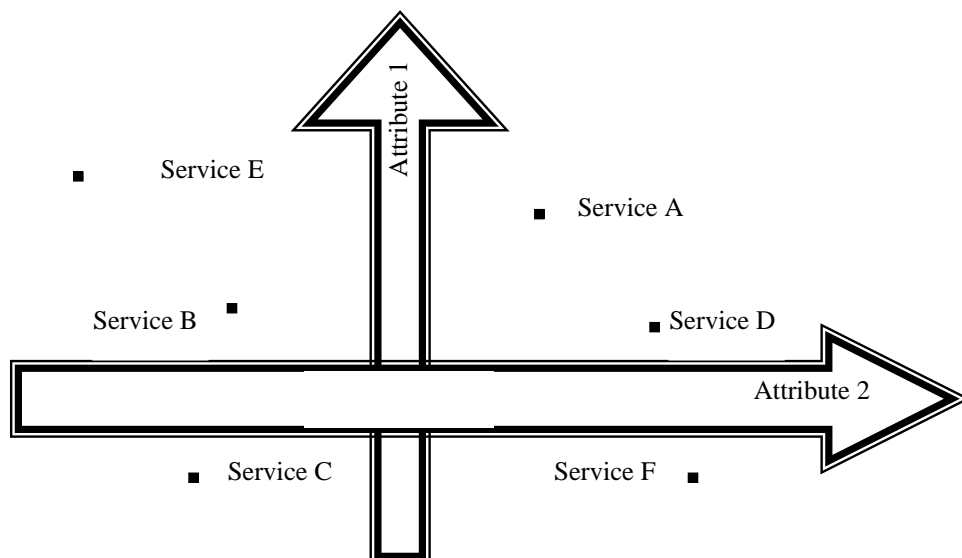
- A service's ability to serve the needs of particular set of *users* also determines its salability. For example, Disney Land positions itself as a fun place for children and Goa positions itself as the destination for fun-loving youth.
- The attributes should also provide *rational and emotional benefits* to the customers. For example, a customer may opt for a certain hotel as it is near his office and convenient to travel from during his stay. At the same time, he might opt for a particular airline because he likes the personal attention given by its crew members.

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

### Location of Attributes on Positioning Map

The attributes identified by the marketers are categorized into certain dimensions, which reflect the preferences of the customers. These services are plotted on a two-dimensional positioning map as shown in Figure 7.2. These maps are used to identify the competitors' positions with regard to the attributes. Positioning maps can be developed for each segment in the target market and these maps will show the positions of different players, as per the perceptions of the customers in these segments.

**Figure 7.2: Positioning Map**



Let us now discuss the basis for drawing these positioning maps. The basis may be objective or subjective, or both. Objective positioning is related to the visible attributes of the product or service. For example, an IT service provider can be objectively positioned for some unique service offered by it. On the other hand, subjective positioning is related to the image and not the physical aspects of the service. It involves the perceptions customers have about these attributes. For example, a customer's experience on visiting a holiday resort is related to other attributes like his personal feelings and not the physical attributes. Exhibit 7.2 shows how a particular state tourism board in India has positioned its state to the global tourists.

### Exhibit 7.2

#### God's Own Country

In the early-1990s, advertisements featuring the tagline, 'God's Own Country,' began appearing in the print and electronic media in India. The campaign was run by the Kerala Tourism Development Corporation (KTDC) and was intended to promote the South Indian state of Kerala as a tourist destination.

The advertisers projected Kerala as 'the place to be,' and highlighted its natural beauty and cultural heritage as its unique selling propositions. Further, they marketed every aspect of the state from the towns, cities, beaches, backwaters, cultural heritage, food, wildlife and even the centuries-old tradition of healthcare through Ayurveda.

Over the next few years, the organization's efforts to 'sell' Kerala to Indians as well as foreigners began paying off. The state reportedly became one of the places with the 'highest brand recall,' thanks to its unique positioning and targeting efforts. During the early and mid 1990s, Kerala's government concentrated on marketing attractions such as lagoons, lakes, canals, backwaters, boathouses and its 600-km coastline. KTDC even entered into agreements with various hotels, Indian Railways and Airlines, and insurance companies to serve its tourists better.

During the late 1990s, the focus shifted to the marketing of hill stations, waterfalls, the Western Ghats, wildlife sanctuaries and the state's cultural traditions like Kathakali, Koodiyattam (traditional dance forms), temple festivals, Kalari Payattu (martial arts), boat races and Ayurveda. In 2000, the Kerala Travel Mart Society (KTMS) organized the Kerala Travel Mart-2000 (KTM-2000), a high profile promotional campaign, at the International Convention Center, Kochi. This campaign made the tagline Kerala-'God's Own Country' popular worldwide. Gradually, as Kerala's marketing campaigns picked up pace, international travelers became aware of the state's rich culture, traditions, handicrafts, art and cuisine. KTM-2000 attracted holiday buyers from 32 countries including France, Malaysia, Singapore and Hungary. The state became one of the favorite holiday destinations of the millennium.

*Adapted from, "Kerala Tourism", ICFAI Center for Management Research.*

### Evaluating Positioning Options

Once the ideal positions are identified by the company, its services can be positioned in any of the following ways as explained by Ries and Trout<sup>6</sup>:

#### Strengthening present position against competitors

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

#### Identifying an unoccupied market position

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

#### Repositioning the competitors

This strategy aims at regular repositioning of a company's present position to obtain a superior position as compared to its competitors. Exhibit 7.3 gives an account of how a cellular service provider in India has repositioned its brand successfully.

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<sup>6</sup> Ries, Al and Jack Trout, "Positioning: The Battle for Your Mind: How to Be Seen and Heard in the Overcrowded Marketplace"

### Exhibit 7.3

#### Live Every Moment

The Airtel brand (and the pre-paid card service brand, Magic) had top-of-the-mind recall amongst cellular phone users and enjoyed a leadership position in most markets. Industry observers primarily attributed it to Bharti's strong brand building and positioning strategies. In the late 1990s, many international and domestic players entered the segment. This increased the competition in the sector. This realization led Bharti to the launch of the 'Leadership Series' campaign and the campaign was reportedly successful and resulted in a marginal improvement in Airtel's performance.

In August 2000, Bharti launched its new 'Touch Tomorrow', which aimed at strengthening its relationship with its customers. Commenting on the rationale behind the new campaign, Sachdev said, "The new campaign and positioning was designed to highlight the relationship angle and make the brand softer and more sensitive." According to company sources, the new positioning was aimed at developing a strong relationship with the customers. Explaining the need for repositioning, Sachdev said, "Airtel was perceived as a premium brand. The new positioning is intended to add warmth to these attributes." In line with the company's objectives, the new TVCs and advertisements focused on highlighting Airtel as a brand that made it possible for customers to derive all the benefits of cellular telephony.

Due to consistent marketing efforts, the Airtel and Touch Tomorrow campaign became very popular. Therefore, Bharti's decision to withdraw this campaign (Touch Tomorrow) in 2002 came as a surprise to many. The new campaign was accompanied by a change in the logo as well. The idea behind the new logo was to give Airtel a younger look. The logo (with new design and colour pattern) symbolized innovation, energy and friendliness.

As part of the brand repositioning and restructuring efforts for Airtel, Bharti changed the brand's tagline in early-2002 from 'Touch Tomorrow' to 'Live Every Moment.' The company also decided to undertake a comprehensive brand building program for the company and chose the slogan 'Unlimited Freedom' for it. Commenting on these changes, company sources said, "Airtel's brand identity and campaign will now have a new younger and international look and feel that builds on the earlier positioning." The shift to Live Every Moment from Touch Tomorrow, proved that Bharti was consistently on the lookout for the best marketing strategies for Airtel.

*Adapted from "Airtel", ICFAI Center for Management Research.*

## Implementing the Position

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

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

### The service

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

## Positioning and Differentiation of Services

### The price

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

### The location

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

### The promotion

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

### The people

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

### The processes

Processes play an important role in positioning as well as repositioning a product or service. For example, repositioning a service may aim at simplifying the existing processes for the convenience of the customer. For example, a bank can be positioned for its premium customer service. Further, it can be repositioned with the help of technology by offering its services through the Internet, stressing on the convenience of the customers.

## SUMMARY

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After the logical step of segmenting and targeting the market, a company should position itself in the minds of customers for its unique attributes, as compared to its competitors. Positioning a service is difficult as compared to products because services are intangible in nature. However, a company should identify a competitive position for itself in the market, by differentiating itself from the competitors. Further, a company should add value to its services by improving either its primary activities which consist of inbound logistics, operations, outbound logistics, marketing and sales, and service or its support activities which include the procurement processes, infrastructure of a firm, its human resource management, and the technology development. These interdependent and interrelated activities, together contribute to the margin that the company aims to earn. This concept of a value chain has helped organizations identify their core and non-core activities so that some of them can be outsourced. The firm's strengths help the firm gain either a cost advantage or a differential advantage over its competitors.

To gain a competitive advantage, a company should differentiate itself from its competitors based on the attributes that are important, distinct, communicable,

## Services Marketing

superior, preemptive, affordable and profitable to the customers. Further, companies should understand the importance of positioning in developing a marketing strategy and its influence on the profit margins of a particular company. This understanding will help a firm in framing a suitable positioning strategy.

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

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## **Chapter 8**

# **Managing Demand and Capacity**

**In this chapter we will discuss:**

- Concept of Demand
- Demand Patterns
- Capacity Constraints
- Strategies to Match Demand and Capacity
- Creating a Demand Inventory
- Yield Management



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

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

There is a need to manage capacity to meet the fluctuations in demand, for both goods and services. However, there are some constraints. For example, the seating capacity of an airline cannot be increased to meet the increase in demand and decreased when there is no demand. Therefore, the airline has to increase the number of trips to meet the rise in demand (however there is again the constraint of the number of planes they own or operate). On the other hand, when the demand is low, airlines should try to reduce the number of flights to avoid operational losses. It is very important for a service provider to learn and adopt new ways to manage demand and capacity.

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

### CONCEPT OF DEMAND

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

### Contraction and Recession

Contraction is a phase in the economic activity, which is symbolized by a decrease in the growth rate of the economy and is visible in retarded industrial production, employment, real-income, and trade. Economic contraction occurs due to recession or depression in the economy if it continues beyond two quarters. An economy is said to have been hit by recession when its growth rate is substantially below normal for six continuous months. Normally, the period of recession extends from one to two years. Exhibit 8.1 shows how the demand for basic and other services fluctuates during a recession. Depression is a severe form of recession. It occurs when there is a

### Exhibit 8.1

#### Recession and Services

Unlike the business cycles of manufacturing economies, where a cycle of boom and bust follow each other typically spanning over 10 years and 2 years respectively, service economies function in a different manner. Services can be divided into basic services that people cannot compromise on and there are other services that people can avoid during recession.

The demand for basic services like education, and medical facilities will not decrease during recession. People will continue to consume these services independent of the economic situation. This is because people cannot compromise on these essential services and hence are ready to pay high prices for them. On the other hand, there are some services that can be forgone during an economic downturn. People tend to cut down on consumption of services like entertainment, restaurants, travel and tourism during periods of recession.

Analysts and experts feel that services are more recession-proof when compared to physical products. This is true to a certain extent as service organizations can manage their inventories without incurring huge losses. On the other hand, manufacturing organizations tend to over produce goods during the boom period which tend to lie idle during recession, leading to huge inventory costs and subsequent losses. In contrast to manufacturing organizations, service organizations can immediately lower the supply of services if they find the demand low and thus recover quickly from adverse effects. Further, service organizations can also increase their capacity, with very little investment, as compared to manufacturing organizations.

*Adapted from Swaminathan S. Ankalesariya Aiyar, "Recessions have Become Tamer", The Times of India, May 31, 2001.*

significant decrease in the economy's total production along with a high unemployment rate for more than a year.

When the economy is going through a phase of contraction, the demand for goods and services reduces as the unemployment rate increases. People who are employed have a fear of being laid off and are also paid less, resulting in little spending and more savings. This decreases the demand for various financial services. Various economies are still to recover from the effect of the recession that started in late 1990s.

#### Expansion or Boom

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

#### Technological Developments

Technology has developed unimaginably over the past 10-15 years. The invention of powerful tools like Internet has changed the way people work in the 21<sup>st</sup> century. The Internet has made online trade possible, facilitated communication at a rapid pace with the help of e-mail, tele-conferencing, etc., and provided many such facilities that

increase convenience at work. These days, banking and investment can be done through the Internet, online reservations are available for travel, and entertainment and other special features like medical counseling, etc. are also available on the Internet. Further, technology has enabled users to produce technical documents in a short period with the innovation of Computer Aided Design (CAD), which is more flexible and accurate.

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

### Demographics

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

### Natural and Other Disasters

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

- Let us review the fate of the airline industry after the September 11 2001 attacks on the United States and how it affected other industries. These attacks psychologically affected many people; their confidence levels dipped low making them choose other means of transport. This situation badly affected the demand for air travel and many airlines had to cut back on their capacity and number of trips, which meant a decrease in their income. Eventually, they had to lay off many workers, and all this indirectly affected the demand for goods and services in other industries. For example, low demand for in-flight meals would affect the food-suppliers; cut down in the number of flights would decrease the demand for airline equipment, etc. Thus, a decrease in demand in a particular industry had an impact on the demand in other related industries.
- Severe Acute Respiratory Syndrome (SARS), a respiratory illness with pneumonia like symptoms that took many lives around the world, had a severe impact on the travel and tourism industry in 2002-2003. Governments banned travel to the SARS affected countries as a protective measure to prevent the spread of the disease. The recent Iraq war also affected the global economy adversely. Many countries cut off their flights to Gulf countries and stopped using the air space of Middle East for safety reasons. There was a trade imbalance too for a short time, which was later restored.
- In 2003, another natural disaster hit the poultry products in the form of the bird flu virus, which affected chicken and was transmitted to humans through them. Several governments banned the imports of poultry products and WHO ordered mass slaughter of chicken in some countries to prevent further spread of the disease. Similarly, mad cow disease also affected the demand for dairy products and beef a few years ago. When specific industries like poultry and dairy get affected, they directly or indirectly have an impact on the economy of a country, which depends on these industries, to a certain extent.

### DEMAND PATTERNS

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

#### Sketching Demand Patterns

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

#### Foreseeable Cycles

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

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

#### Random Demand Variations

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

#### Demand Patterns by Market Segment

An organization that maintains a comprehensive customer database which includes all the transactions with each customer in a detailed manner is at an advantage as demand

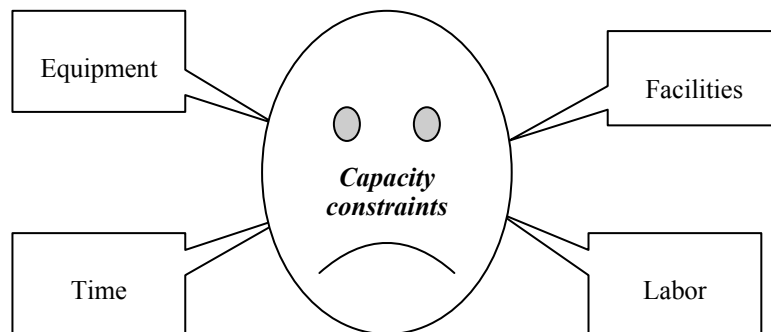
patterns exhibited by each segment can be easily identified. This type of database will give in-depth information about the stable or random demand patterns shown by various segments. For example, if a tour operator keeps track of its regular customers, it might get some gainful insights into their spending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

### CAPACITY CONSTRAINTS

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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, labor, equipment, and other production facilities are fixed and cannot be expanded or contracted with demand. Let us discuss these factors in detail. Figure 8.1 gives a diagrammatic representation of capacity constraints.

**Figure 8.1: Capacity Constraints**



- **Time:** The main constraint for expanding the capacity in some service businesses is the time available with the service provider. For instance, the revenues and profits of professionals like lawyers, doctors, consultants, etc., depend on their ability to use their time in a productive manner. However, when there is a high demand, these service providers cannot increase their capacity to offer services and when the demand decreases, they have ample free time, which cannot be utilized. Therefore, time is the biggest constraint for these service providers.
- **Labor:** Organizations that hire the services of employees to offer services to the customers face capacity constraints in the form of available or unavailable labor with the organization. For example, an increased demand for the services of a department in a university, a law firm, or a tax consulting firm, cannot be met when these service providers are already working at their maximum capacity. On the other hand, it may not be feasible for the organization to hire additional workers in a competitive market which exhibits low demand for services during the off season. The Indian IT firms for example, hire employees in large numbers when the demand for their services increases. However, these employees have to sit on the bench when the market is down and the size and number of projects decreases. Labor constraints may also arise from lack of skilful labor to perform the job. Exhibit 8.2 gives an account of labor constraints in the BPO industry.

### Exhibit 8.2

#### BPO's Internal Challenges

The Indian BPO industry in recent times has attracted many fresh graduates with good English speaking skills and an ability to work during nights. There has been no problem in hiring employees for the entry-level positions as there are a large number of competent and aspiring candidates in the market. However, as the BPO industry is still in its nascent stage and has just completed around 5 years in India, there is a lack of competent managers in the middle-level and senior level management positions.

As a result, the attrition rates are quite high. One of the easy avenues available to these companies is to recruit from competitors or from captive outsourcing centers like GE and American Express. This has resulted in a higher attrition rate of 45% in these captive BPOs as against the industry average of 35%. Many companies are offering special facilities to their employees to reduce the attrition problem and attract competent resources. These include 24/7 in-house cafeterias, home pick-up and drop facilities, educational loans, arranging weekend parties, passes for music events and many other such facilities.

*Adapted from Atchyutuni Niharika, "Challenges for the Indian BPO Industry", Effective Executive, March 2004*

- **Equipment:** Service organizations that require equipment to carry out their operations may face capacity constraints due to the limited equipment available with the service provider. Courier service providers like FedEx, UPS, etc., face constraints in terms of the size of the fleet available with them during festive season like Christmas, when the demand for courier services is high.
- **Facilities:** Some service organizations face capacity constraints due to limited facilities available with them. For example, the number of rooms in a hotel cannot be increased during periods of high demand. Similarly, a restaurant's capacity is limited by the number of tables and chairs available and a university's capacity is limited by the number of seats available to the students.

## STRATEGIES TO MATCH DEMAND AND CAPACITY

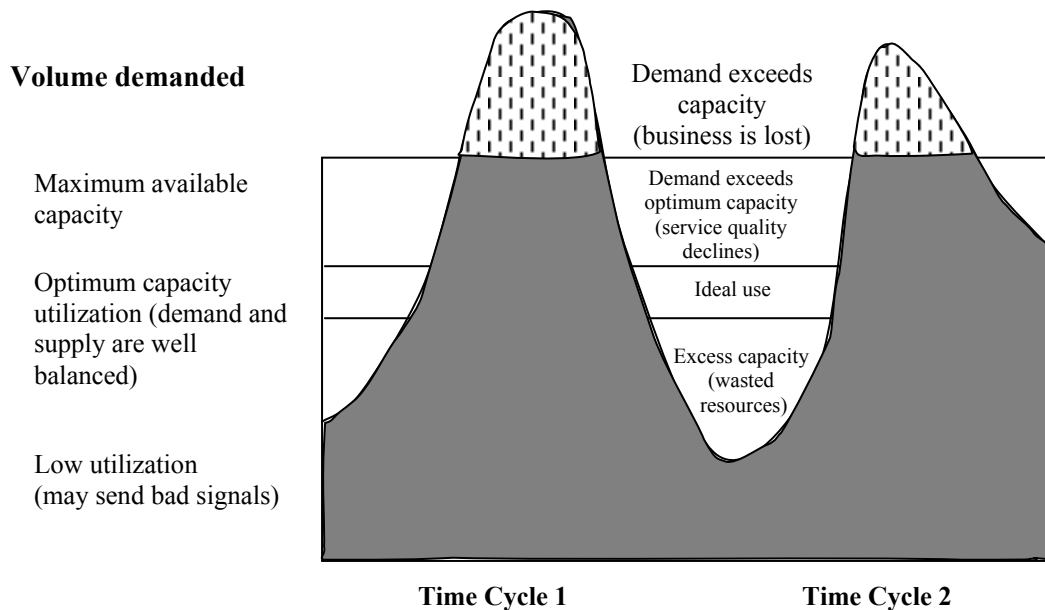
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An organization should make efforts to understand the demand patterns and its capacity constraints to effectively formulate strategies that can match demand and capacity. Figure 8.2 presents a diagrammatic representation of variations in demand relative to capacity. There are two options for an organization if it desires to match its demand and capacity. An organization can either opt to shift the demand to meet the capacity or to increase or decrease the capacity to match the demand fluctuations. Let us discuss both these strategies in detail.

### Demand Shift

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

**Figure 8.2: Variations in Demand Relative to Capacity**



Source: C. Lovelock. *Product Plus*. Boston: McGraw Hill, 1994.

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

### **Varying the original service offer**

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

### **Communicating with customers**

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

### **Altering the timings of service delivery**

Service organizations should note the periods when the customers need to or want to deal with the service provider. Maintaining business hours accordingly would help the customers as well as the service provider. For example, a decade ago, bankers worked for only six days a week, but with the increase in demand for their services, increased

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competition in the market place and an increased demand for convenience by the customers, the present day bankers operate seven days a week. Similarly, restaurants make special offers to their customers during the low-demand hours. For example, when Pizza Corner launched a special offer scheme during the India-Pakistan series in Pakistan in 2004, they made it available from 3 pm to 7 pm.

### Price differentiation

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

### Adjusting Capacity to Meet Demand

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

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

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



## Managing Demand and Capacity

Some of the basic strategies adopted by service providers to match demand and capacity by altering capacity are discussed in detail here. They are covered under the broad approach of 'Chase demand'. This process involves matching the four primary resources, namely, labor, time, equipment, and facilities with the demand. Some of the popular methods 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. For example, managements of holiday resorts employ more workers during the high demand season and consultants hire additional staff during the financial year-ending when there is a peak demand for their services.
- **Outsourcing:** This is a very popular method employed by today's organizations to handle demand variations. When organizations 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 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. For example, a school can be rented out to conduct an entrance examination on a Sunday when the school is closed for students. Looking at it from another angle, a facility or equipment can be obtained on rent as it is not feasible to purchase new equipment that would not be used at other times. For example, a caterer might rent large cooking utensils instead of purchasing them if he lands a big contract for a short period.
- **Schedule downtime during periods of low demand:** 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. For example, an airline can conduct its maintenance work when the fleet is idle so that they can be ready for extra load during peak demand periods.
- **Cross-training employees:** This involves training employees to perform other tasks apart from their routine tasks, so that underutilization of labor does not take place in the organization. These multi-skilled employees can be shifted to tasks that are in high demand. For example, training an employee in sales and marketing will help the management to shift his services from HR to sales during periods of high demand.
- **Modify facilities or move equipment:** Facilities can be modified innovatively during peak /slack demand periods. For example, during slack demand periods, swimming pools at hotels can be used as a facility to coach people in swimming. On the other hand, some equipment can be moved from place to place to deliver the services at the consumers' convenience. For example, mobile banking enables a customer to continuously deal with the bank with the help of a mobile phone. Organizations are inventing and adopting novel ideas and concepts to align demand and capacity in these competitive times so as to reduce their costs and maximize their benefits. Refer to Exhibit 8.3 to understand one such new concept, called 'Capacity on Demand' (COD).

### Exhibit 8.3

#### The Novel Concept of Capacity on Demand

‘Capacity on demand’ (COD) is an innovative concept that has emerged in the IT industry which can help organizations to avoid the costs of storing additional capacity without utilizing it. This concept provides the facility to receive and pay for equipment as and when needed by the company. This helps the company to avoid storing excess capacity that might not be useful for a long time or to avoid falling short of capacity when needed by the organization.

‘Capacity upgrade on demand’ and ‘on/off capacity on demand’ are the features of the COD concept. ‘Capacity upgrade on demand’ helps an organization receive a 24-processor computer server initially while paying only for the capacity it requires say, a 16-processor server. When the organization needs more capacity, it can contact the vendor and get the activation codes to switch on the additional capacity. On the other hand, ‘on/off capacity on demand’ allows an organization to turn on the capacity when it requires and turn it off when it doesn’t, thus, including an element of flexibility and saving on cost and time. Both the above features are advantageous as they involve flexibility and the speed to acquire additional capacity.

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

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

Source: Gupta, Puneet; “Lowering cost with capacity on demand”, *Express Computer*, 22<sup>nd</sup> December, 2003

## CREATING A DEMAND INVENTORY

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

### Queuing System

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

## Managing Demand and Capacity

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

### Psychological considerations in waiting

Service organizations often tend to ignore the feelings of customers when they are kept waiting. However, this is an important aspect as disappointed and frustrated customers may opt for a competitor's service. The following principles were proposed by David Maister in his article, "The Psychology of Waiting Lines", to provide more insights into 'waiting' for both customers as well as service providers.

- Unoccupied time seems longer than occupied time. Therefore, service organizations keep their customers busy during the waiting period by offering some activities. For example, some restaurants provide puzzles on their table mats to occupy their customers, till the order arrives.
- Pre-process waits seem longer than in-process waits: Customers perceive the waiting time to be less when they are involved in any activity related to the service during their waits. For example, filling up a bio-data form while waiting for an interview keeps the candidate relaxed as he feels that the process has already been initiated.
- Anxiety makes the waiting period seem longer: Often, customers become anxious when they don't know how long they have to wait. They might also feel frustrated because they assume that the service personnel have completely forgotten or ignored them. For example, the wait at a doctor's clinic would seem longer and more frustrating than the wait at a theater. Therefore, organizations should inform customers about the duration of the wait beforehand to reduce their anxiety.
- Uncertain waits are longer than known, finite waits: As discussed in the above point, customers should be informed about the length of waiting in order to reduce their anxiety. Thus, customer dissatisfaction can be reduced. Otherwise, customers should be informed on their present position to avail the service. For example, regular announcements at an airport on the delayed flights and their timings will reduce the anxiety and frustration of the waiting passengers.
- Unexplained waits are longer than explained waits: People are more patient when they are given the reasons for waiting. For example, when a fitness expert keeps

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his clients waiting at this gym, he can make the wait more tolerable by informing them that he's caught in a traffic jam or that his car has broken down. On the other hand, if no reasons are given then his customers become less tolerable of the uncertainty regarding the wait.

- Unfair waits are longer than equitable waits: When customers perceive that they have been treated in an unfair manner and that they have waited longer than other customers, they would be disappointed and irritated. Therefore, if some customers receive priority over others, the service personnel should explain to the other customers, the reason behind breaking the queue and serving them first. The best example is of a hospital or clinic where patients with serious problems are treated first though other patients have been waiting for a longer period.
- The more valuable the service, the longer will people wait: Customers who are in queue for a high-value service will wait for a longer time more patiently. For example, an enthusiast will willingly wait for a long time in queue to get tickets for his favorite movie. Similarly, a customer at a five-star hotel would wait longer for his food to be served than he would normally do in a small restaurant.
- Solo waits feel longer than group waits: Customers find waiting less tedious if they are in the presence of other waiting customers. While waiting in a group, their attention is occupied by the activities of the other people in queue. The customer also feels that he is not alone and there are other people waiting with them. For example, a customer waiting for the delivery of a pan pizza alone might feel that the time taken is longer when compared to the same person waiting in the company of other people.
- Physical discomfort makes waiting feel longer: If the waiting area is not clean or comfortable, then customers perceive the waiting time to be longer than it actually is. For example, waiting in a sofa in an air-conditioned room would be easier than waiting on a hard bench in a poorly ventilated room.
- Waiting seems to be longer for new or occasional users: If a person, who usually travels by air, decides to travel by train and the train gets delayed, he might find the waiting period longer than others who usually travel by train and are accustomed to such delays.

## Reservation Systems

This approach helps service organizations to spread demand and avoid unequal demand situations. This system ensures that service products will be ready for delivery when customers arrive at the place. For example, customers prefer reserving movie tickets through the Internet or the telephone and reaching the theater just in time to collect the tickets and watch the movie. This helps customers escape the difficulties of standing with uncertainty in a long queue for the tickets. In addition, reservation systems also help to shift demand to slack periods. However, service providers face certain problems when they use reservation systems. Some people may not show up after reserving the product. Some organizations adopt the system of overbooking to solve the problem. Exhibit 8.4 discusses how some hotels in India adopt overbooking to cover losses involved in last minute cancellation of group bookings by tour operators. However, the success of this method depends on the accuracy in predicting the percentage of people who may not show up. In case of inaccuracy, customers may face a problem due to non-availability of service. To prevent this, instead of overbooking, some organizations charge a fee from the customers who fail to show up. This helps the organization cover losses due to unutilized capacity. For example, the railways charge a cancellation fee when a customer decides to cancel the ticket.

### Exhibit 8.4 Overbooking Losses

Most hotels in India lose thousands of rupees per annum due to no-shows and cancellations by tour operators. Often, tour operators reserve rooms in one hotel, and if the rooms are on the waiting list, they reserve rooms in another hotel to avoid problems when the tourists arrive. If the rooms in the first hotel are confirmed 24 hours before the arrival of the tourists, they cancel their reservations with the second hotel resulting in a total loss to this hotel. As there is no need for tour operators to pay any charges for cancellation, hotels incur huge losses in the process. Therefore, hotels adopt overbooking to avoid such losses.

Most of the five star hotels charge low prices for group bookings. However, with the increase in the number of no-shows, hotels have started the practice of overbooking and charging high prices from tour operators against the prices agreed upon previously. Further, they even refuse rooms after confirmation.

However, not all hotels are involved in the practice. Premium hotels like The Taj, and The Claridges stick to their ethics and do not deny the tour operators after confirming the rooms even though they can earn more profits by selling the rooms to other operators at higher rates.

*Adapted from, Anandita Chattopadhyay, "Friend or Foe?" Express Hotelier and Caterer, 22 March, 2004.*

## YIELD MANAGEMENT

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Yield management, also known as revenue management, aims at earning the highest possible revenue in capacity-constrained services through the service-provider's operations. Organizations use information technology to divide their customers into finer segments, which in turn help in understanding better, each segment's price sensitivity. However, achieving this would highly depend on the amount of past data on demand patterns, available with the organization. Let us now discuss the yield management process.

### Yield Management Process

The first step in this process is to segment the market based on customer needs and their ability and willingness to pay. Further, companies can segment the market based on the price. For example, the customers of a hotel have been identified as those belonging to the business class and the leisure travel class.

The second step involves collecting information that helps service managers identify the highs and lows in demand to help them match demand with supply efficiently. This may require an in-depth knowledge of sales, seasonal patterns, and patterns of customer purchases. Continuing with the earlier example, it was also noticed that the executive suites were occupied by the business travelers and the deluxe rooms by the tourist families. The patterns also revealed that the demand for deluxe rooms overflowed during the vacation period while most of the executive suites remained vacant.

The third step takes advantage of the customers' varying needs by setting different prices for the same product or service. An efficient pricing requires knowledge of statistical methods that helps in determining price points, their cut-off points, and the capacity required at each price point. However, the success of these pricing strategies would depend on the organization's managers' efficiency in accepting the relevant demand that would maximize revenue and rejecting the reservations that would not in anyway increase revenue. Looking at the earlier example, what let us see that the

## Services Marketing

management can do to maximize revenues? Let us suppose the price difference between the two categories of rooms is Rs.2000 per day. The management can reduce the room tariff of the executive suites by Rs.1000 during vacation times, and make it more attractive for tourists. This will help the management fill the vacant executive suites, thereby maximizing the hotel's revenues.

Finally, these pricing strategies should be well communicated to the customers through advertising and promotion. Further, organizations should convince customers through their services that it is worthwhile to pay the extra money for the kind of services they receive. Those tourists who opt for executive suites should be willing to pay the extra amount in the next season for the special facilities and features.

## Application Areas of Yield Management

A perishable product or service has no value after a certain period of time. For example, unutilized seats in an airline are no longer of value once the flight takes off. In this case, the excess capacity is wasted.

Another area is where capacity is limited and cannot be stretched at times of huge demand. For example, the number of seats in a cricket stadium. In this case, there are more fans interested in watching the match, but because the capacity of the stadium falls short, the demand is lost.

This concept can also be applied to services where customers can be segmented based on the time and price at which they purchase these services. For example, when a ticket is purchased in the 'tatkal' quota, the customer has to pay a higher price. The customer is however willing to pay the extra price if he needs to travel immediately.

Services that can be sold in advance will gain high revenue when yield management is applied. It depends on the customer's willingness to purchase services in advance, thereby allowing the management to align demand and capacity. For example, a movie theater can announce that advance booking ticket is priced at Rs.80 for a hit movie, instead of the normal rate of Rs.70. A customer will be attracted to pay that Rs.10 extra, because he would be guaranteed a ticket.

Industries that contain high fixed costs and low variable costs of operation also benefit from yield management. For example, a five-star hotel has high fixed costs when compared to the variable costs of operation.

## Benefits of Yield Management

Many industries have reaped success by adopting the yield management concept. A good example is that of American Airlines, which increased its revenues to \$500 million per year. Some of the benefits of yield management are listed below:

- It demonstrates the ability of the management to sell its services at a higher price, when the customers are willing to pay.
- It also helps the management determine the break-up of services to be sold at full value and at a discounted price.
- It helps in fixing the prices in the discounted category using the demand levels forecasted earlier.
- This concept also helps the organization manage inventory at an optimum level and thus avoid market share erosion or revenue dilution.

### SUMMARY

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The perishable and intangible nature of services makes it impossible for service companies to store them in order to use them during peak demand periods. On the other hand, demand for services depends on many factors like the phase in which the economy operates i.e., whether the economy is in a recession or expansion; demographic factors, natural disasters, and the technological developments in the market.

Organizations should understand the basics of how and why demand for a service fluctuates in order to design strategies to manage demand. Charting out the patterns of demand will help organizations find some predictable cycles. If predictable cycles do not exist and the demand patterns are random, organizations should further find the reasons for such random demand and try to form strategies to reduce the same. Understanding demand is not sufficient to manage demand fluctuations. It also involves the organization's capacity to fulfill the demand. Therefore, it is imperative for an organization to understand its capacity constraints in terms of time, labor, equipment, and facilities. A clear understanding of demand patterns and capacity constraints will help an organization design suitable strategies to match them both.

Demand and capacity can be matched either by shifting demand and stretching or aligning capacity to meet demand. Shifting demand involves varying original offer to meet the current demand, communicating the periods of peak and low demand to the customers, altering timings of service delivery to spread the demand across the peak and slack periods, and finally adopting price differentiation strategy to meet the demand fluctuations.

Capacity can be managed to meet the demand by stretching the four primary resources namely time, labor, equipment, and facilities. Further, when it is not possible to stretch these factors, an organization can vary the basic mix and use these resources creatively to meet the demand fluctuations. This strategy is popularly known as 'chase demand'. This can be done by hiring part-time employees, outsourcing activities, sharing or modifying facilities, renting or moving equipment, cross-training employees and finally by scheduling downtime delivery periods of low demand.

Apart from matching demand and capacity, an organization may also try to create a demand inventory. The first step is to deal with the waiting line or queue at the time of service delivery. One way is to adopt the first-come first-serve principle. When it is not possible to do so, organizations can solve the problem through market segmentation. Other strategies involve serving those customers who require the services on an emergency basis first, reducing the time of transaction, serving important customers first, or by serving customers who contribute the most to the organization's profits.

Organizations should consider the psychological feelings of the customers while they are waiting and make the process more tolerable for them. This can be achieved by keeping customers busy while waiting, involving them in activities related to the service, reducing their anxiety by informing them about the current situation and the duration of waiting. Customers have to be explained the reasons why the service delivery was taking so long and why some of them were served first. Organizations should understand the customers' tendency to wait for longer periods depending on the value of the service and their irritability while waiting alone. Additionally, by adopting reservation systems, organizations can spread the demand equally across peak and slack periods.

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**Part IV**

**Services and the Marketing Mix**

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## **Chapter 9**

# **The Marketing Mix Elements**

**In this chapter we will discuss:**

- Marketing Mix in Traditional Marketing
- Inadequacy of Four Ps for Marketing Services
- Expanded Marketing Mix

## Services Marketing

*"Too much marketing today is 1P marketing, namely, marketing dealing only with promotion, whereas other departments determine the product, the price, and the place."*

**-Philip Kotler**

The concept of marketing mix was first coined by Neil H. Borden, in his article "The Concept of the Marketing Mix" in 1962. Ever since, it has become the foundation for any discussion on marketing. It has also been widely and successfully used by many companies all over the world. Companies use the marketing mix as a basis while designing a marketing strategy or sketching out a marketing plan. Further, a brand's strategy can be well implemented in the market with the help of the marketing mix.

The marketing mix consists of the four Ps namely, product, price, promotion, and place. A product is a physical good or a service offering that is of value to the customer. Price is the amount paid by a customer who buys the product or hires the service of the marketer. Place is where the products /services are exchanged with the customer for a price. Finally, promotion involves communicating with the target market to provide information about the product/service. These four elements have a direct or indirect effect on each other and so cannot be dealt with in isolation. They need to be integrated. For example, a service provider who improves the service offering (product) may have to increase the price to retain or increase the profit margins.

An organization should analyze which elements of the marketing mix are most important for its business at a given point in time. For example, a hotel might have to concentrate more on promotion during peak demand, while it might have to concentrate more on pricing during the lean period. Similarly, a brand might require more stress on the product front during its development or re-launch stage, while the importance might shift to pricing or promotion to push it in the market. A clear-cut definition of the target segment will also help an organization prioritize its marketing mix elements for the best results. However, marketers have found that these four Ps fall short when the strategy for marketing services has to be designed. The inadequacy of the traditional four Ps is discussed in detail in the chapter. Marketers and strategists have identified three more Ps namely, people, process management, and physical evidence, for the marketing mix of services.

In this chapter, we shall discuss the four traditional Ps of marketing, the inadequacy of these four Ps in the marketing of services and also study the 7 Ps namely product, price, promotion, place, people, process, and physical evidence in relation to services marketing.

## MARKETING MIX IN TRADITIONAL MARKETING

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Marketing organizations around the world have been using the traditional marketing mix to develop, design and market products/services that satisfy customers' needs. As stated earlier, the four Ps of the marketing mix namely product, price, place, and promotion should be used collectively rather than in isolation, as each one of them has a direct or indirect impact on the other elements of the marketing mix. The success of a product in the market depends on a marketer's ability to mix these elements in the right proportions.

A product's features should satisfy the needs of customers, but at the same time, it should also be attractive to the customer in terms of price, promotion and place. For example, if a product is not priced appropriately, then customers may not want to buy it. If a 25" flat-screen television is priced very high in the market when competitors are offering a 24" one for considerably lower price, then customers would certainly turn down this product and go in for a competitor's product. Therefore, the way a

product is priced should reflect the value it delivers, keeping the competitors' pricing structure in mind.

Promotion helps a company create awareness and build recognition for itself and its products in the target market through advertising, sales promotions, etc. A company should choose a suitable promotional strategy that communicates its product offerings to the target market. For example, a company can advertise its products through television or the print media in cities, but the same company should choose the radio or other media like banners to advertise in rural areas. Further, a company should take measures to avoid confusion in the minds of customers about its product offerings. Finally, a company can gain higher profits if it can choose the right place in terms of distribution channels like distributors, wholesalers, and retailers etc., to sell its products. A company should be able to identify cost-effective ways of delivering the product to the end consumer. The right combination of these four elements of the marketing mix will result in high profits.

### **INADEQUACY OF FOUR Ps**

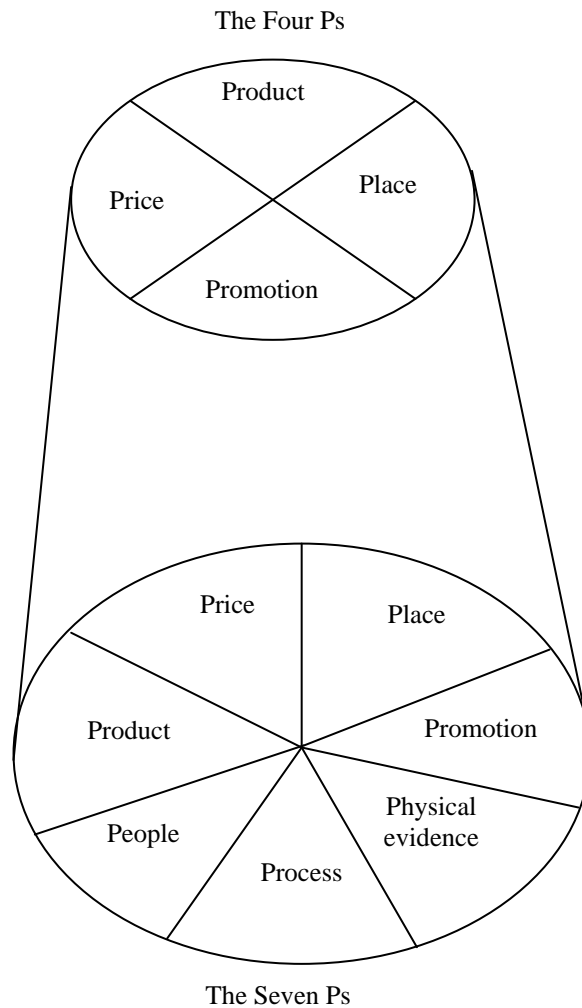
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The four traditional Ps of the marketing mix - product, place, price, and promotion are adequate for marketing a product. However, they fail to cover the following aspects, which differentiate products from services and are, therefore, important for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

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

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. The addition of these three elements has helped in better understanding and designing marketing strategy for services better. We shall discuss all these seven Ps in detail in the next section. Figure 9.1 shows a diagrammatic representation of the seven Ps of the marketing mix for services.

**Figure 9.1: Expanding the Traditional Marketing Mix for Services**



### EXPANDED MARKETING MIX

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Given the special features of services like perishability, intangibility and inseparability, which distinguish them from goods, strategists and marketers, added three extra elements to the marketing mix for services. They realized that people, process and physical evidence play a greater role in the marketing of services than in the marketing of goods. Let us now discuss all the 7Ps of the marketing mix for services marketing.

#### 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 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. For 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. For 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. For example, the marginal cost involved in letting out a room in a hotel to a customer is negligible while the fixed cost of establishing and maintaining the hotel 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. For example, the owner of a movie theater can increase or decrease the price of tickets depending on the demand for them. Similarly, hotel owners can raise the room tariff during the peak season and lower it during the lean season. This concept has been discussed in detail in Chapter 8, under 'yield management'.

### 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. Exhibit 9.1 shows an example of the promotional activities launched by various countries.

Promotion of service offers cannot be carried out in isolation, without promoting the service provider, as consumers 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. For 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. For example, when a customer visits a restaurant or an entertainment park, he makes an assessment of the

### Exhibit 9.1

#### Tourism Promotion of Asian Countries

Singapore tourism has launched a new destination brand named 'Uniquely Singapore' to attract tourists from all over the world. Their tourism board has designed the campaign to project the modernity, tradition and culture of Singapore. They also plan to launch a special media campaign during 2004-2005 and are planning to conduct a global road show with natural talents to promote the 'Uniquely Singapore' brand among international tourists.

Similarly, Malaysia came up with an annual cultural show called "Colors of Malaysia" in 2001, which went on for a month. The purpose of this show was to promote and project Malaysian tourism as a combination of tradition, culture and art. Further, the tourism board aimed to spread out these festivals throughout the year in order to consistently attract global tourists. This festival fitted in exactly with the punch line - 'Malaysia: Truly Asia.'

Jackie Chan has been signed to promote tourism in Hong Kong by the Hong Kong Tourism Board (HKTB). HKTB launched a new commercial with a slogan called "Hong Kong – Live it, Love it!" that aims to invite tourists to experience the place and to love the country.

*Adapted from Charmaine Fernz, "MAS Plans Road Shows To Promote Tourism", [www.expresstravelandtourism.com](http://www.expresstravelandtourism.com); "HK launches global advertising campaign", [www.chinatravelnews.com](http://www.chinatravelnews.com). September 16, 2003; and "Uniquely Singapore: a global campaign", [www.travelbiz.com](http://www.travelbiz.com). 29 March, 2004*

service based on the behavior of the service personnel and the crowd there is at that point in time. 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. Further, place decisions involve the following:

- The physical location of the service provider's outlet. Banks, for example, are striving to provide ATMs to their customers at all important locations to improve accessibility to their services.
- The physical appearance and ambience of the place of service offering. Exhibit 9.2 shows how one of India's largest hotel chains, The Taj Group, has changed the appearance of its rooms.
- 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 service provider to sell holiday packages either directly or through tour operators to the customers.

## People

Most service providers understand and, therefore, treat people management as an important aspect of the service delivery. Some service organizations perceive people as a means to gain a competitive advantage in the industry. Therefore, they invest in attracting, training and retaining the best talent. Exhibit 9.3 gives the example of the Taj Group of hotels in India. The following three points help us understand how people in a service organization can have an impact on the service offered:



### Exhibit 9.2

#### What is in a Place?

In 2003, the Taj Group redesigned its hotel rooms to make them more comfortable and attractive. After the change, every room at Taj has a 42-inch plasma screen television, DVD players with MP3/CD player with surround speakers, and subwoofers. This gives the customers the freedom to choose from a large range of movie and music tracks.

Bathrooms have also been revamped to include a luxury shower area equipped with steam units and double headed showers. Taj has replaced the soft mattresses (still used in many hotels) with hard ones and offered a wide range of soft and hard pillows in the rooms, for the individual customer to make his choice.

Further, each room is provided with ergonomically designed chairs, modern reading lamps, double-level mobile work desk, task lighting and wireless Internet. It also provides up-to-date technologies and facilities for conferencing. These facilities can certainly help the hotel attract more traveling business executives.

Source: "Redefining Customer Service", *Financial Express*, December 6, 2003

- 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. For example, the owner of a place, either commercial or residential, desires to hire the services of an interior decorator to beautify the place. The service provider (interior decorator in this case) should help him express his desires and expectations clearly so that he can deliver the exact service.
- 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. For example, a hotel like Ritz Carlton has developed the image of an elite-class hotel with high-spending and high-profile visitors. Further, the behavior or performance of other consumers

### Exhibit 9.3

#### Training at the Taj

The Taj Group of Hotels won the prestigious Hermes Award in 2002 for innovating the best practices in human resource management in the global hospitality industry. Training programs at the Taj Group aim to educate their personnel to be professional and warm, and to enhance their ability to serve global customers. The Taj Group conducts leadership programs that train and assess the potential of their personnel. Taj has its own centers of excellence where heads of departments are trained. These heads in turn train their staff. The training programs contain foundation modules for the employee to reach Taj standards.

As the present generation is more health conscious, chefs at Taj are trained regularly to improve their skills and serve healthier recipes. Taj gives priority to on-the-job training. Further, Taj performs a competency mapping for each individual to identify a person's strengths and train him/her accordingly. Further, Taj trains people in-house and sends them abroad to attain more skills.

Adapted from Sujatha Chakraborty, "The Taj's 'Stars' Shine Bright" [www.tata.com](http://www.tata.com), 2002; Isidore Dominic Mendis and Anurag Yadav, "What the Bosses Say..." [www.thehindubusinessonline.com](http://www.thehindubusinessonline.com)

## **Services Marketing**

largely affects the service production and delivery process. Fellow consumers have the power to either degrade the service quality or elevate it. For example, when a section of the audience behaves badly at an Opera, the total experience of fellow audience is 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. For example, a passenger of an airline is required to check in, get a boarding pass, and then go for the security check before boarding the plane. All these activities form part of operations as well as marketing.

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. Service encounters have been discussed in detail in Chapter 4. Among all the service encounters, a few are very important for completing the service delivery process on a successful note. 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. For example, banks have introduced ATMs to offer convenience to customers and also reduce the human element in the service delivery process. This mechanization helps reduce labor costs which along with competition in the service industry has 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. For example, a hotel offering self-service can save on labor costs and can pass on the savings to the customers in the form of lower prices.

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. For example, some customers are ready to pay an additional amount as commission to portfolio managers for managing their investment portfolio.

## **Physical Evidence**

As discussed earlier, 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 behavior of the service personnel in a bank, the location and ambience of a food outlet, etc. Exhibit 9.4 cites an example of how a hospital in Thailand tried to attach physical evidence to its service through its innovative designing.

**Exhibit 9.4**

**The In-Hospital Experience - Bumrungrad Hospital**

Bumrungrad, a hospital in Thailand, has a western-style ambience to woo foreign patients. The lobby of the hospital resembles that of a five-star hotel, with a ceiling as high as two floors, teak pillars and plush sofas and armchairs. Attractive oriental carpets cover the marble floors, while flowering trees and shrubs are tastefully arranged around. The hostesses are trained in different foreign languages. One of the main attractions of the hospital is the variety of restaurants in the lobby that cater to people of different nationalities. While big brands like McDonald's and Starbucks attract significant attention, there are Thai and Japanese restaurants as well. This ambience makes the patients feel at home.

When you come in and see the lobby and see Starbucks and smell a good cappuccino, there's a different psychological effect. It changes people's attitude to health and promotes the idea of the hospital as a place to come not just when you're sick, but when you want a health check as well.

Bumrungrad offers healthcare services round the clock. It is estimated that the average time for treatment of outpatients is just 42 minutes. In April 2001, Bumrungrad installed Internet cafés in the hospital, popularly known as BH Cyber Corners. Here, visitors and patients can browse the Internet round the clock. The cafes are located at the main lobby and at the outpatient center.

Bumrungrad's accommodation facilities for patients include two royal suites, 19 VIP suites, 57 deluxe rooms and 119 single, semi-private and budget 4-bed wards. All the deluxe rooms and VIP suites and the two royal suites have PCs with an Internet connection.

*Source: "Bumrungrad's Global Services Marketing Strategy", ICFAI Center for Management Research*

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**SUMMARY**

As we have learnt in earlier chapters, services are characterized by their intangibility, inseparability, variability, and perishability. Due to these characters, goods and services show considerable differences. Therefore, the approaches for marketing each should also be different. The four Ps of the traditional marketing mix, viz., product, price, promotion, and place, largely determine how well a company can use each element to satisfy its customers and thus gain profits. A company should design products that meet customers' needs, and develop a pricing structure that customers find affordable and attractive. Further, the benefits of using these products should be communicated to the customers through suitable promotional strategies and should be delivered in a cost-effective manner through profitable distribution channels.

Service providers have found that the four traditional Ps of the marketing mix are not adequate for services due to the distinct characteristics of services. These four Ps namely, product, price, promotion, and place, do not cover all the areas of service production and delivery. Therefore, service providers have added another three Ps to the traditional marketing mix. They are people, process, and physical evidence. This chapter discusses all the seven Ps of the services marketing mix in detail.

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## **Chapter 10**

# **Product: Packaging the Service**

**In this chapter we will discuss:**

- Service Product Level
- Service Product Decisions
- Branding in Services
- Categories for New Service Development
- New Service Development Process
- Product Life Cycle

## Services Marketing

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

Packaging a service is a critical element of the marketing mix. At times, some of the best product designs might fail due to poor packaging. Therefore, how a business designs and presents its services to the customers is very important. Marketers are required to sufficiently differentiate their service offerings from those of their competitors. Additionally, they should also develop a strong brand by adding the right proportions of the other six elements of the marketing mix. They should also include a larger number of tangible clues that would reduce the perceived risk of customers and help them choose a particular service. Exhibit 10.1 gives an example of how Indian hotels are setting new standards in packaging their services.

In this chapter, we shall discuss the various levels in service products, service product decisions, and branding in services. Further, we shall also study the categories under which new services are developed and the process involved in new service development. Finally, we shall discuss the four stages of the product life cycle in detail.

### Exhibit 10.1

#### The Next Generation Indian Hotels

Indian hotels are setting new standards in customer service with the help of wireless technology. These enhanced service offerings can be seen from the time customers check into the hotel to the time they checkout. Oberoi Group sends short messaging service (SMS) confirming room reservations. There is also a facility for frequent visitors who have issued prior instructions regarding payment to checkout by sending a simple SMS to the reception of the hotel. ITC Welcome Group is planning to launch smart cards that keep track of the check-ins and checkouts in the hotel and this provides instant information at one's fingertips.

To meet the communication needs of business travelers in a better manner, many Indian hotels have introduced Wi-Fi hot spots where a Centrino laptop can contact the 802.11b Wi-Fi port to connect to the Internet. The Oberoi Group, the Taj Group, InterContinental Parkroyal and ITC Welcome Group have installed these Wi-Fi technologies in their hotels. Experts opine that these Wi-Fi spots will become a general standard in hotels in future. To further help the customers, some hotels have gone a step ahead and introduced 'cyber butlers', a software diploma-holder, who can clear the technical doubts of the customers staying at the hotel. Parkroyal and Maurya Sheraton have three cyber butlers each, who can clear customer doubts about the interactive TV that is used to display billing information, hotel's information page, and instructions regarding what customers should do during emergencies.

In addition, hotels have replaced regular televisions with flat screen televisions to keep up with the changes in customer tastes. The Taj Group has many 42" flat screen televisions in their Mumbai hotel. Additionally, to provide customers with the latest updates of news around the world, many hotels have invested in newspaper kiosks where a hotel has access to 120 newspapers from 58 countries available at an average of \$5 per paper. InterContinental Parkroyal and JW Marriott in Mumbai have already subscribed to these newspaper kiosks.

*Adapted from Shelly Singh, "Silicon Suite", Business World, 3 May 2004.*

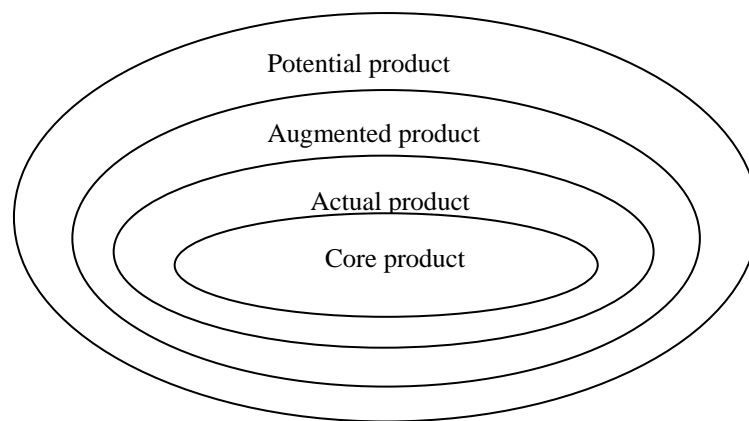
## **SERVICE PRODUCT LEVEL**

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A product can be either tangible or intangible in nature. Intangible products can be in the form of services, people, places, or ideas. Customers seek various benefits when they purchase a tangible or intangible product.

Customers have varied needs attached to a single product. Typically, there are four levels of a product, namely, core level, actual level, augmented level, and potential level. Therefore, service providers should clearly understand and satisfy their customers' needs first at the core level by offering them the core benefits, and then at the actual level by attaching tangible aspects to the intangible services. Later, service providers should satisfy the augmented needs of the customer by providing them superior service finally, they should try to satisfy the potential needs of the customers by including features or benefits that can add value to the customers. Figure 10.1 shows a diagrammatic representation of all these four product levels. Now we shall discuss these four levels in detail.

**Figure 10.1: Service Product Levels**



### **The Core Product**

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

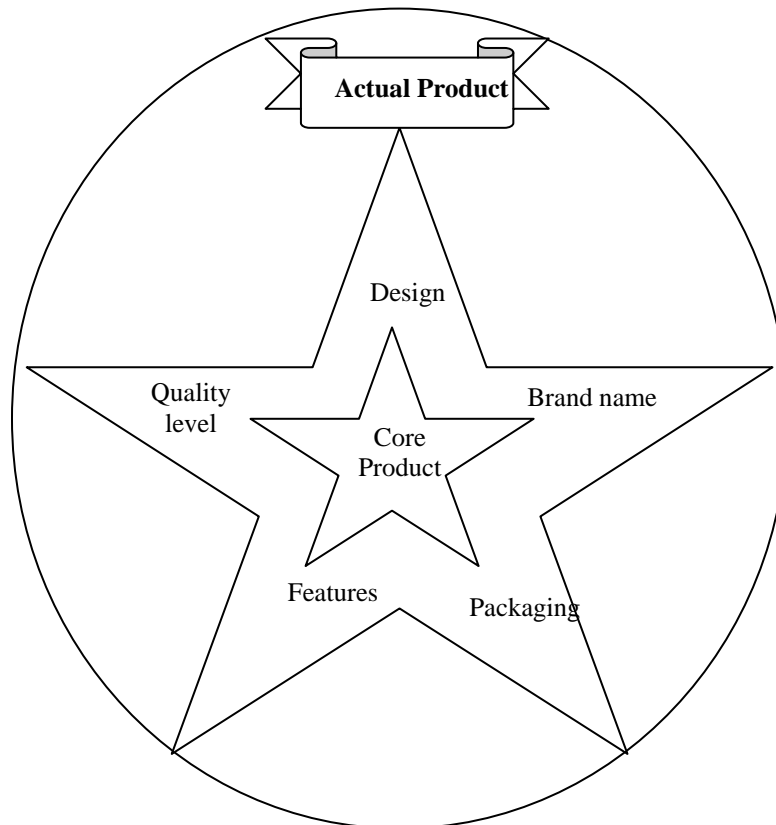
### **The Actual Product**

The tangible aspects attached to the service, along with the service, constitute the actual product. This facilitates the delivery of core benefits to the customers. Therefore, marketers should develop the actual product after the core benefit has been decided. The characteristics of actual products are features, design, quality level,

## Services Marketing

packaging, and brand name. For example, when a company hires the services of a reputed consultant like McKinsey, the quality, some special features and design, the packaging and the brand name accompany the core service of consultation. Figure 10.2 shows a diagrammatic representation of all these five characteristics.

**Figure 10.2: Actual Product Level**



## The Augmented Product

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

## The Potential Product

The features or benefits that can be added and which would be of value to the customers contribute to the potential product. This scope for adding more benefits or features, provides an opportunity for marketers to redefine their products by extending the present offerings and thus attracting new customers. For example, when a woman goes to a parlor for a change in her hairstyle, she has to choose from the hairstyles



shown in the posters out there. However, the hairstyle she chooses may look good on the model in the photograph, but not on her. She might want to know how she would look in a particular hairstyle. The parlor can enable customers to choose their hairstyle with the help of new technology. They can load software that helps them to superimpose various hairstyles on the image of a customer and let the customer choose the one she feels suits her the best. In fact, there are some salons which offer this feature.

## **SERVICE PRODUCT DECISIONS**

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Service product decisions can be taken at various stages in the business cycle of the service provider. A service provider may start his business by offering a service, and he may add more services at later stages. For example, an Internet service provider could initially start his business by providing e-mail facilities alone, but later on he might introduce new facilities like voice-chatting, web camera, net-2-phone, etc. A business can adopt any of the four growth strategies - penetrating the markets with existing services, entering new markets with the existing services, expanding the existing markets with new services, and entering new markets with new services. These four growth strategies proposed by Igor Ansoff are known as market penetration, market development, new service development, and diversification. They are discussed in detail below. Figure 10.3 provides a diagrammatic representation of Ansoff's matrix.

**Figure 10.3: Ansoff's Product Growth Matrix**

	Existing products	New products
Existing markets	Market penetration	Product development
New markets	Market development	Diversification

### **Market Penetration**

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

- *Maintaining or increasing the market share of existing services:* A service provider can maintain or increase the market share of the existing services through promotional activities, aggressive advertising, brand repositioning, or new pricing strategies. For example, Airtel has repositioned its brand from 'Touch Tomorrow' to 'Live every moment' as part of a market penetration strategy.

## Services Marketing

- *Driving away competitors by restructuring a mature market:* This strategy requires a service provider to project the market as unattractive for competitors by designing a suitable (low-price) pricing strategy and by engaging in aggressive promotional activities. For example, if an existing cellular service provider lowers the rates of its services substantially, then a potential competitor might not consider entering the market as the pricing structure is unattractive.
- *Inducing existing customers to use the services frequently:* Service providers can achieve higher growth by inducing existing customers to use the services more frequently. This can be done by introducing loyalty schemes or offering club memberships, which encourage customers to use a particular service. For example, Jet Airways has introduced frequent flier programs to encourage their passengers to use their services more frequently.

## Market Development

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

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

## Product/Service Development

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

## Diversification

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

**Exhibit 10.2**

**Incredible India**

Indian Tourism Board in association with Experience India Society has launched the 'Incredible India' campaign to attract upscale tourists from across the world. For the first time, the Ministry of Tourism (MoT) has presented the country's tourist destinations as one brand representing all the Indian states. Ogilvy and Mather, advertising agency, has helped to release powerful print and electronic advertisements. To create brand awareness and attract global tourists, it has launched television commercials on premium channels like CNN, Discovery, BBC, and Travel. Moreover, it has released advertisements through the print media in popular publications like Vogue and Financial Times.

The tourism board has also launched an online campaign involving contests on popular web sites like MSN, Google, and Yahoo. The tourism board conducted a global media meet inviting travel writers across the world to communicate the developments in India Tourism. The opening up of airline industry also helped to attract more customers by making air travel more affordable. These activities undertaken by the tourism board have establish India as a single product with attractive and rich culture. Thus, India is rated among the top ten destination spots by global tourists and this increased its market share in tourism among other Asian countries like Malaysia, Singapore, Hong Kong, and China.

*Adapted from Amitabh Kant, "The Branding of India", Advertising Express, January 2004.*

## **BRANDING IN SERVICES**

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A brand is a combination of tangible and intangible benefits or values that are important to the customers. It is more difficult to brand services compared to branding goods because of their intangible and heterogeneous nature. Therefore, it is difficult to assess the quality of the service offered by different service providers in the market. It is also difficult for the service provider to maintain consistency in the quality of the service delivery.

However, branding services will help service providers gain an advantage over competitors in the market. It also instills confidence in the customers hiring the service and reduces the perceived risk involved. For example, when Daksh e-services was acquired by IBM, the management of Daksh was happy to benefit from the IBM brand name. This phenomenon is also evident in the consulting/accounting industry, where many firms merged together to strengthen the brand further and reap richer benefits. For example, Price Waterhouse Coopers, one of the world's largest audit firms, is the result of a merger between Price Waterhouse and Coopers & Lybrand.

Some of the advantages of successful branding are higher prices of products/services, higher profit margins, and brand loyalty. When customers use a particular company's services regularly and ignore the competitors' offerings, those customers are said to be brand loyal. A company's profit margins can be improved with the increase in the number of loyal customers. Exhibit 10.2 gives an account of how the Indian Tourism Board has created a brand name for India by developing an 'Incredible India' campaign to attract global tourists.

### **Types of Branding**

Branding in services can be developed through manufacturer branding and licensed branding. Manufacturer branding is so called as the brand is created and named by the producer. Further, a manufacturer brand can be developed either by adopting a multi-

## Services Marketing

product strategy or through a multi-branding strategy. Licensed branding, on the other hand, is an agreement between the producer and the franchisee to use the brand name, design, logo, etc. of the producer. Music World outlets run by franchisees are an example of licensed branding.

- Through a multi-product branding strategy, a company uses the same name for all its products/services. Blanket branding/family branding are the names given to strategies under this category. For example, Citi Group's services have Citi in the names of all their service offerings.
- Through a multi-branding strategy, a company gives different brand names to different products. For example, LIC offers various life insurance policies using different brand names like Jeevan Sanchay, New Janaraksha, Varishtha Pension Bima Yojana, etc.
- A company can also use a combination brand name by mixing the family brand name as well as the individual brand name. For example, State Bank of India used this combination brand name strategy and named its credit cards as SBI Gold Card, SBI Kissan Card, etc.

An interesting point that arises here is whether brands change people or people change brands. It largely depends on the clarity in the understanding of these three terms - change, brands, and people. It is generally believed that changes in the market take place when new needs and wants are created in the minds of customers. Brands are not limited to products and also include services, media, charities, etc. For a change to really impact the market, a significant number of target consumers need to change. The basic needs of human beings never change, but how they satisfy these needs change over time. For example, earlier families preferred traditional Indian foods like idli, or dosa for breakfast. These are now being replaced by corn flakes, bread, eggs, and ready-to-eat snacks. However, a real change takes place in the political, socio-cultural, religious, and economic environment, which in turn changes the lifestyle of consumers. These changes create new trends which give birth to new brands. Exhibit 10.3 gives an account of new brands that came into existence in recent times because of the changes in the consumers' lifestyles and opinions.

## CATEGORIES FOR NEW SERVICE DEVELOPMENT

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As discussed earlier new services or products can be developed and introduced either in the existing markets or in completely new markets. Before understanding the actual process of new service development, let us first discuss the different categories under which new services can be developed.

- Major innovations: These are new services that are yet to be introduced in the market. For example, innovations in technology helped many banks across the globe to start offering new services like net banking, and mobile banking.
- New services for existing markets: A service company might start offering new services to its customers. This service may be already offered by other companies in the market. For example, SBI has launched credit cards and also started ATMs, services that were not available to its customers previously. However, other private banks like Standard Chartered, Citibank, HSBC, etc., started offering these services even before SBI. Some start-up service companies might also start offering services that are already offered by other companies.

**Exhibit 10.3**

**Changing – Brands or People?**

In the recent past, the demand for cellular services has increased due to a need for fast and continuous communication among consumers. This led to the evolution of strong brands like Airtel, Hutch, Reliance, etc. Further, short messaging services (SMS) became popular among the younger generation as it is a convenient, quick and affordable mode of communication.

Media brands like MTV and Channel V have further accelerated the process of change in the socio-cultural environment of today's youth. In the movie industry, these changes are visible in the number of 'Hinglish' movies that have been made in recent times. The reason for this is a change in audiences' tastes as they look for something else apart from the regular Bollywood fare. On the other hand, media brands like Tehelka have awakened people to fight for their basic rights and to be responsible citizens of the country.

The evolution of strong brands is also evident in the charity circle. Brands like Greenpeace have increased the awareness of many individuals and changed their attitudes towards environmental protection groups and protecting the environment. Brands like Red Cross and Oxfam have given social and economic facilities to many needy people. In India, CRY has awakened the conscience of people to help children in need. Changes in the attitude of women have led to the evolution of service brands like oral contraceptives, giving more decision-making power to women.

*Adapted from Vivek Sharma, "Changing Brands," Change Analyst, May 10, 2004.*

- Improvements in offerings: These improvements can take place in two ways. The first way is to improve the features of the existing services. For example, banks have started offering services seven days of the week for customer convenience. The second way is to add new features to the existing services. For example, hotels add health club, conference facilities apart from their regular services.
- Minor changes: These are changes in style of the service companies.

## **NEW SERVICE DEVELOPMENT PROCESS**

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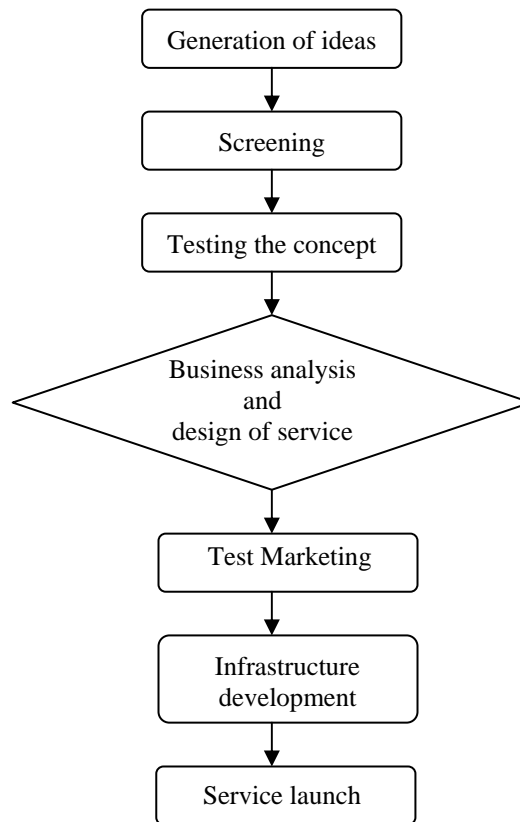
The fixed costs involved in developing a new service for a market are very high and failure in operating this service successfully can result in losses for the company. For example, fixed costs for launching a new insurance company, building a premium hotel, or starting a new airline service are so high that if these services operate under-capacity, then the service company would experience huge losses. In order to avoid these losses, service companies should take time to analyze the various factors involved and design a new service that guarantees maximum success. The following steps would help a company to successfully develop a new service. Figure 10.4 gives a diagrammatic representation of the new service development process.

### **Generation of Ideas**

Ideas to design and develop a new service may be generated within the organization or can be gathered from external sources like customers. Before proceeding further these ideas should be thoroughly analyzed. Let us now discuss the internal and external sources of ideas in detail.

*Internal sources:* Organizations should encourage their employees, especially the sales staff and the front-line personnel to communicate any ideas that they may have for new service development or improvement in current service offering. Some of the ideas may be gathered by the front-line personnel during their interaction with customers or competitors. Further, organizations should maintain a suggestion box. They can invite suggestions and ideas from their employees and analyze them from time to time. Brainstorming sessions among employees may also prove to be quite

**Figure 10.4: New Service Development Process**



useful in generating new ideas. A sound evaluation of the current services may also give rise to new ideas to improve them, or to add more features to the existing services or to develop new services. Organizations should continuously invest in educating and updating their personnel with the latest developments in the field. For example, they can send their key personnel to seminars and workshops in their concerned areas of business.

*External sources:* Organizations should keenly analyze the customer feedback on their existing services and their comments on the competitors' services, as these may give rise to successful ideas for new service development. Organizations can also approach experts in the field like marketing consultants for innovative ideas. More importantly, organizations should also conduct marketing research and perform gap analysis on a regular basis to identify those areas where there is demand for services but no players to offer those services. A well built market information systems (MIS) in an organization can act as a tool to gather information on the existing services and track the market trends for new services.

### Screening

This is the second stage in the process of new service development and involves screening the ideas generated in the earlier stage. At this stage, an idea can either be dropped entirely, or be stored in the database for future reference, or be adopted with a few modifications or be approved and implemented directly. While analyzing any idea, the organization needs to check the compatibility of the new idea with the existing service offerings and the organization's resources. Information on the

## **Product: Packaging the Service**

predicted present/future demand for the service, the expected revenues, and the estimated time to launch the service and the possible reaction of the existing competitors are essential for evaluating an idea.

Besides, organizations should also foresee the possible obstacles in the development process and the likely delays or losses due to them. These obstacles can be technological, regulatory or financial in nature. The management should be practical in dealing with a new service development as it involves huge costs that might affect the current business situation.

### **Testing the Concept**

An idea that has been approved by the management may or may not be liked by the customers. Therefore, the idea or the concept should be tested to know the reactions of the target customers who would finally use the service. Often, companies adopt market research techniques and conduct surveys to know the opinion of the target customers about the new service. It is very important for service providers to directly interact with the customers and analyze their responses. For example, when a tourism service provider plans to offer a lodging service to his customers, he should talk to his existing as well as potential customers about the service offering and find out if they would like to have such a service. Then, depending on their response, he can decide whether to offer the service or not. He can even gather customers' ideas and suggestions on the kind of service they would prefer and its features. Alternatively, he can hire the services of a market research agency to conduct the market survey and convey the final results after analysis. In recent times, even the film industry (Bollywood) is hiring the services of market researchers to know in advance if a film with a specific storyline and star cast would succeed in the market. Then accordingly, they change their storyline or star cast to suit market needs.

### **Business Analysis and Design of Service**

This stage further analyzes the idea that has been selected in the earlier stage and designs all the seven Ps of the marketing mix. An organization prepares various types of forecasts and cost estimates that are required for the development and launch of a new service. Equipped with these details, an organization can better assess the market potential for a new service.

Business analysis involves defining the target market, its size, its structure, and the existing customer trends. Present and future demand forecasts can prove to be extremely useful in helping the organization decide whether to launch the new service. In addition, information about the effects of external environmental factors is essential for the organization to develop measures to tackle any problems that may arise in the course of developing and launching the new service. Further, the existing competition and their strategies should also be analyzed. At this stage, an organization also designs the service process through service blueprinting<sup>1</sup>.

Business analysis and design of the service take place simultaneously as the outcome of business analysis determines the design of the service. Simultaneously, as and when a new service takes shape, its business has to be analyzed. Therefore, decisions relating to both are dependent on each other. Any service has certain design risks due to intangibility and marketers should have a complete understanding of these risks. Lynn Shostack<sup>2</sup> proposed four risks related to service description namely oversimplification, incompleteness, subjectivity, and biased interpretation.

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<sup>1</sup> Blueprinting is to present the service process in a flow chart in relation to time. This topic is further discussed in 'Chapter 15 - Process'.

<sup>2</sup> G.L. Shostack, "Understanding Services through Blueprinting," in Advertising Services Marketing and Management, Vol. 1

## Services Marketing

- **Oversimplification:** This should be avoided by marketers when describing a service as it may fail to convey the actual benefits or features of the service to the internal as well as external customers.
- **Incompleteness:** The management, the employees, and even the customers should try to learn the aspects they do not understand in a service description. An incomplete service description would have an adverse effect on description of the service delivery and consumption.
- **Subjectivity:** There is a risk that the description of the service design is limited to the knowledge of the person who describes it. This happens when the service provider is biased or has a limited exposure to the service.
- **Biased interpretation:** This risk arises as a result of misinterpretation of the words used by a supervisor to his service personnel, or by the service personnel to the consumer.

Therefore, service description should not be limited to verbal clues and should include visual clues as well.

## Test Marketing

To further reduce the risks, organizations should test market their services before launching them in the market. Organizations can select specific areas where they allow consumers to use their services and provide constructive feedback.

Test markets help an organization perform pre-launch modifications to the service to rectify any lapses in the marketing mix and thus avoid problems later on after the service is launched in the market. In addition, organizations should also decide on the areas to test market the service and the time duration of the exercise as repeat purchases are more important to management decisions than the trial purchases. Organizations can adopt a 'roll out' process, wherein the service is introduced to other regions after its success in one region. For example, WeP Peripherals started its innovative 'Print and Save' pay-as-you-use laser printing service for corporates as a test marketing exercise in August 2002. It subsequently launched the service on a full scale after it received a good response from the select few customers chosen for test marketing.

However, test marketing has certain associated risks that marketers should be vary of. Competitors may learn about the new ideas and might develop or modify their services accordingly by the time the company launches the service. Therefore, organizations should take due care when deciding the period and area to test market a service.

## Infrastructure Development

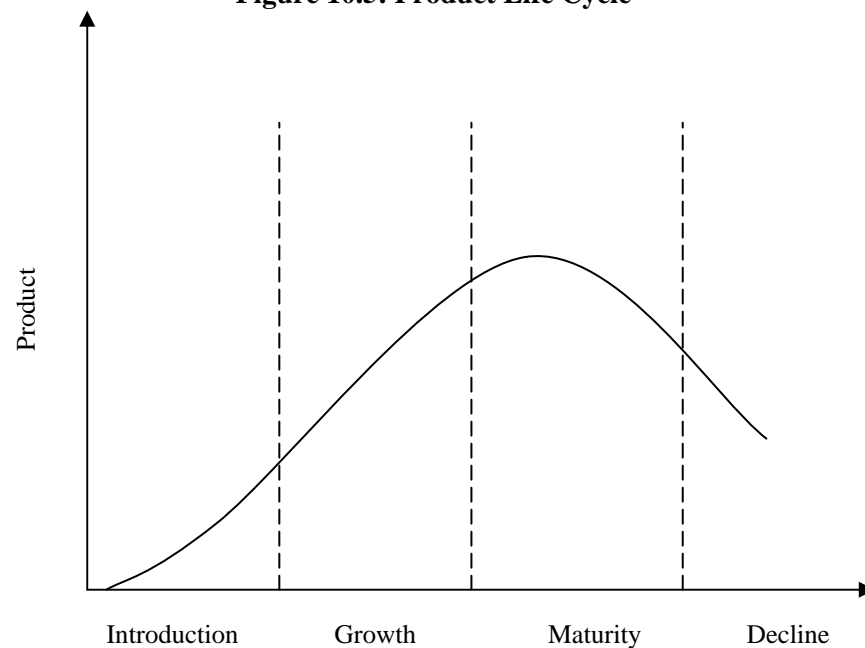
The infrastructure required to deliver the service is developed in the penultimate stage when the company prepares to launch the service. This may include many activities like hiring and training personnel, selecting the channels, developing promotional policies, pricing policies, and designing the packaging of the new service.

## Service Launch

The last stage in the new service development process is the actual launch of the service in the market. The life cycle of a service begins here and it is important to regularly supervise the operations to maximize revenues. At this stage, the new service gets revenues to cover for the costs involved in designing and launching it. Services can be launched on a 'roll out' basis as discussed in the test marketing stage or they can be launched directly in all the national and international markets.



Figure 10.5: Product Life Cycle



## PRODUCT LIFE CYCLE

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After a new product/service has been developed and introduced in the market, the different stages through which it passes over time, is known as the product/service life cycle. Generally, there are four stages in a product/service life cycle namely, launch, growth, maturity, and decline. These four stages are discussed in detail below. Figure 10.5 gives a diagrammatic representation of the product life cycle.

### Introduction

This is the first stage in the product life cycle wherein a product or service is introduced in the market. The main aim of marketers at this stage is to increase product/service awareness among customers. An organization can adopt any strategy in the market like skimming or penetration, depending on the size of its operations. Organizations may not earn profits at this stage as they have to cover the costs incurred, as discussed in the previous section. However, organizations should carefully monitor the performance of the service to avoid any losses in future and in fact to let the service grow further.

### Growth

The brand awareness created in the earlier stage helps an organization to earn revenues and reap profits at this stage. The markets continue to grow as more and more customers buy the service. Further, organizations invest in promotional activities with the aid of profits. Thus, marketers strive to increase their market share and also maximize their profit margins.

### Maturity

Due to high competition and limited growth in this stage, companies try to maintain their market share. Marketers try to modify their services to tap any potential for growth. They also try to increase the quality and efficiency of their services to maintain customer loyalty. They should be discreet in deciding their marketing expenses and in allocating their finances.

## Services Marketing

### Decline

This is the final stage in the life cycle of a product/service and is characterized by reduction in demand and consequently a decrease in revenues and profit margins. The introduction of new services in the market or changes in customer preferences reduces demand. The best option for marketers is to discontinue the service if they cannot afford to modify or reposition it.

### SUMMARY

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Packaging the service product is an important aspect of the marketing mix concept. It enables a company to differentiate itself from the services of its competitors. An understanding of the various product levels namely, core product level, actual product level, augmented product level, and potential product level helps a company to recognize and meet the customer needs at each level. This increases customer satisfaction.

While taking product decisions, marketers can choose to operate through the four strategies namely market penetration, market development, product development, and diversification. After deciding on a strategy to compete in the market, a company should concentrate on branding its services. It can choose to brand under a single name or offer different brands for different services. On the other hand, it might also choose a combination of both types of branding. Proper branding of a service and clear communication will result in an increase in brand loyalty among customers which will have a positive affect on the profit margins.

Further, when developing a new service, a company has to decide under which category it should be developed. For instance, a service can be developed due to major innovations in a particular industry, to introduce new services in addition to the existing services that may or may not be offered by other companies, to improve the service offerings to enhance customer convenience, or due to minor changes in style. After deciding the category under which a service has to be developed, a company has to develop a new service. This process involves generation of ideas, screening, testing the concept, business analysis and design of service, test marketing, infrastructure development, and launch of the service.

Launching a new service is just the beginning as a company should closely monitor various stages in the product life cycle and take timely decisions to operate successfully. Marketers should try to earn profits at each stage - launch, growth, and maturity stages, and should decide on discontinuing a particular product/service if it reaches the decline stage. However, a company might also choose to reposition the product at this stage.

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## **Chapter 11**

# **Pricing Services**

**In this chapter we will discuss:**

- Key Characteristics of Pricing in Services
- Pricing Objectives
- Approaches to Pricing Services
- Incorporating Perceived Value into Service Pricing
- Value Strategies in Pricing of Services
- Issues in Pricing of Services

*“The key to making the sale is to communicate VALUE! Do it so strongly... that the price seems reasonable in relation to the product or service you're offering.”*

*“A customer perception of what is a 'reasonable price' is more important than what you want to charge for your product or service. And the customer decides what's reasonable based on perceived value for money, not price. It's creating this perception of value that tells the customer - the price is right.”*

*Noel Peebles, Author, “Sell your Business the Easy Way”<sup>1</sup>*

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

The pricing of services is different from the pricing of goods in many ways. Price has a single name in the manufacturing sector, whereas it takes different names in the services sector. For example, the price charged for advertising is known as commission, for boarding and lodging services, as tariff; for legal services and healthcare as fees; and for share or stock services as brokerage and commission. Pricing of goods is determined by the market demand in most cases, unless regulated by the government. On the other hand, price is controlled by different bodies for various services. For example, prices for government provided services like the railways are completely controlled by the government; prices for services like banking, power, telephone, and insurance are partially regulated by the government, prices in hotels, domestic services, auto servicing, personal care services, recreation, etc., vary according to the demand in the market; and prices of advertising services, hospitals, expert services like lawyers and stock brokers are determined by the service providers themselves.

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

In this chapter, we shall discuss the key ways in which pricing in service firms is different from pricing in manufacturing firms and the various pricing objectives of service firms. Further, we shall discuss the approaches to pricing services and how service firms can incorporate perceived value into service pricing. Finally, we will discuss the value strategies in pricing services, and issues in pricing services.

### **KEY CHARACTERISTICS OF PRICING IN SERVICES**

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

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<sup>1</sup> [www.instantsellbusiness.com](http://www.instantsellbusiness.com)

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- *Price is a measure of quality in services:* A customer turns to pricing to assess the quality of a service when he does not have any information from other sources like a company's advertising activities or its brand name that would highlight the company's reputation. Pricing is considered to be the best measure of quality, especially in services whose quality or price differs widely from the other players in a group of service providers. For example, when a beauty parlor offers a facial at Rs.250 against the average market charge of Rs.150 and promises quality, the customer has a better feeling about the quality of service. Therefore, most of the premium service providers price their services higher than the market price. Further, pricing helps customers estimate the quality of services with high credence properties and thus minimize the perceived risk involved in the purchase. For example, services like medical treatment, education facilities, or consulting services involve high-risk and high credence properties; therefore, customers tend to rely on pricing in the absence of other information, to judge the quality of these services. Service providers should, therefore, design a pricing strategy that stands as evidence for the quality of services offered by them.
- *Non-monetary costs and pricing:* Researchers have found that certain non-monetary costs are also incurred by the customers in the process of consuming a service or purchasing a product. Therefore, the demand for a service is also affected by these non-monetary costs. Consumers perceive that they have incurred certain other costs in addition to the actual price paid for the service and these costs are known as non-monetary costs. They include time cost, search cost, psychological cost and convenience cost.

Time cost involves the time spent by consumers in co-producing the service or in waiting to receive the service. For example, the time spent by a patient in the out-patient wing of a hospital to meet the doctor and receive a prescription, or the time spent by a customer in the restaurant to give an order and then have it served, constitute the time cost involved in the two cases. Customers often have to spend their time to receive a service. Therefore, service providers should try to minimize the time spent by the customers in the process of availing of a service.

Search cost involves the efforts made by a customer to recognize and choose the required service. The search costs of services are high compared to those of goods as the prices of goods are easily known and this facilitates comparison. For example, say a customer wants to hire a taxi from Mumbai to Pune. He enquires about the cost from 3-4 service providers before selecting the cheapest one. However, when he stops midway for filling in petrol, he sees the standard price of petrol displayed and gets it filled in the tank. Therefore, customers have to gather information from various service providers before making a decision. The only exception to this point is in the insurance or financial services, where agents or brokers provide all the information required by a customer.

Psychological costs are borne by the customers either at the time of buying the services or at the time of consuming them. A customer's fear of those terms in an insurance policy which he cannot understand, or his fear of being rejected by a banker when he applies for a loan, are examples of psychological costs. Psychological costs are incurred by some customers even when positive changes are introduced in service consumption. For example, when airlines started offering online reservation, customers were not comfortable about giving out their credit card numbers to reserve the ticket.

Convenience costs involve the inconvenience faced by customers in consuming the service and is different from the time, search and psychological costs. For example, when a resort or a hotel opens a spa beyond the outskirts of the city (say 20 km away from the city limits), customers are put to some inconvenience in traveling to the resort and back. They will include this inconvenience cost as a non-monetary cost involved in consuming the service.

- *Difficulty in comparing prices of services:* Every consumer has some reference price in mind when purchasing a product. The reference price can be an amount paid by the customer in the past for the same service or the price paid by a friend or acquaintance for a similar service. The pricing structure in services is quite complicated, as a wide variety of services can be offered due to the flexibility involved. For example, when a customer desires a room in a hotel, he can reserve either an AC or a non-AC room with a double or single bed. In addition, the prices vary for each combination. In addition, the intangible feature of services makes it more difficult for customers to assess the value of various services and compare them. For example, while Indian Airlines charges Rs.3750 for the economy class travel between Mumbai and Hyderabad, Jet Airways charges Rs.4025 for the same service. It becomes difficult for the passengers to compare their prices relative to the service provided by them.
- *Prices vary with demand:* The pricing of services also varies with the demand for a particular service and this demand depends on the seasonal variations either directly or indirectly. For example, Goa Tourism Development Corporation Ltd. has different off-season charges for its various tour packages. Similarly, hotels can vary their room charges for AC rooms during the season and off-season.

## PRICING OBJECTIVES

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

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

*Present profit maximization:* A company sets this objective with the aim of increasing its current profits from the business. Companies adopting this objective analyze the demand and costs at different prices and select a price that will result in high current profits, return on investment, or cash flows for a certain time period. For example, say a hotel enjoys 100 percent occupancy and 10 percent profits if it fixes its room tariff at Rs.800 per day. If it changes the room charges to Rs.1000 per day, it enjoys only 70 percent occupancy, but the profits are higher at 20 percent. If it further increases its room charges to Rs.1200 per day, the occupancy reduces to 50 percent and the profits also reduce to 15 percent. Based on this data, if the hotel looks at maximizing profits, it prices its rooms at Rs.1000 per day.

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

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

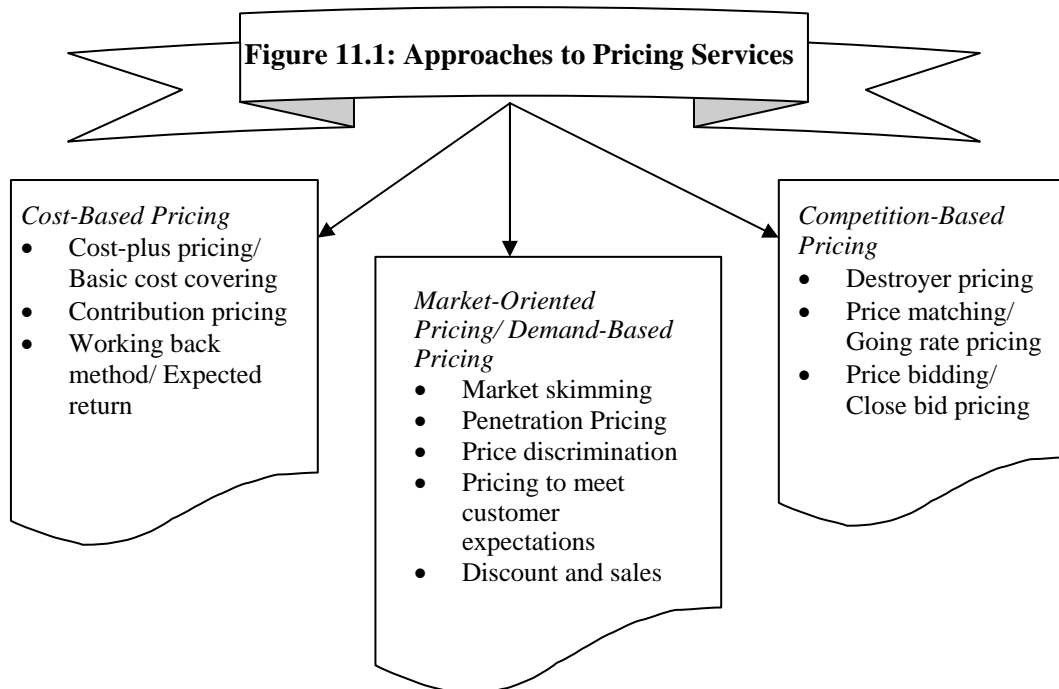
*Product quality leadership:* A company that aims to position itself as a superior quality service provider charges high prices to compensate for the costs incurred in providing premium quality services and in its investment in research and development. For example, some health clubs charge higher prices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

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

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

## APPROACHES TO PRICING SERVICES

Generally, organizations can design many pricing strategies and this can be quite confusing and misleading for a company. To get a clear idea, organizations can group these strategies under three main headings, namely, cost-based pricing, demand based pricing and competition based pricing. Let us now discuss all these three strategies in detail. Figure 11.1 gives a diagrammatic representation of the three pricing approaches.





### Cost-Based Pricing

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

- **Basic cost covering/ cost plus pricing**

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

- **Contribution pricing**

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

- **Working back method (Expected return)**

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

### Market Oriented Pricing or Demand-Based Pricing

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

- **Market skimming**

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

- **Penetration pricing**

Penetration pricing is used by service providers when new services are introduced in the existing market or when existing services are introduced in new markets. Initially, the prices of these services are kept low so that customers tend to re-purchase from the

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same service provider and thus become loyal over time. Even if the service provider increases the prices of these services at a later point of time, customers tend to continue with him and do not switch to other service providers. For example, Reliance India Mobile entered the mobile service market with this pricing strategy as it aimed to penetrate the market and gain a good market share.

- **Price discrimination**

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

- **Pricing to meet customer expectations**

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

- **Discounts and sales**

Discounts can be used to attract a segment of customers. For example, BSNL offers a discount of upto 7.5 percent to its corporate customers, as they bring in large business. The sale of old stock by companies is not applicable in the case of the service industry as services cannot be inventoried. Therefore, during the off-season, only discounted prices are offered to customers. Exhibit 11.1 gives an example of how two fast food pizza chains in India have introduced discounts and slashed prices to attract more number of customers.

## Competition-Based Pricing

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

- **Destroyer pricing**

This strategy is used to throw competitors out of business by setting the lowest prices in the market. The prices are so low that competitors find them difficult to match, and they cannot survive in the market if they reduce their prices to the same level. For example, Air Arabia, the Sharjah government owned airline is all set to capture a major chunk of the market with its rock bottom prices if it gets the license to enter the Indian market. Air Arabia charges less than Dh 500 (Rs 6000) for a return ticket to Colombo from Sharjah whereas the lowest Air India fare to Thiruvananthapuram, (Kerala) which is shorter in distance is Dh 1700 (Rs 20000) now.<sup>2</sup> This has prompted Air India to plan a low-price service with no frills. However, service providers should

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<sup>2</sup>“Two UAE-based airlines look at India”, Central Chronicle, May 24, 2004

**Exhibit 11.1****Pizza Chains Slashing Prices**

Domino's sold a 12" pizza for Rs 265 initially. Competition from Pizza Hut forced Domino's to introduce price cuts, discounts and freebies to attract customers. Both Domino's and Pizza Hut tried to lure customers issuing discount coupons through several schemes. In 1998, Domino's spent 50% of its total marketing budget on special offers and discounts along with delivered direct mailers and pizza training classes.

Domino's slashed prices of their pizzas by 40% in March 2000. The price of a regular pizza with three toppings was cut from Rs.225 to Rs.130. In October 2000, Domino's ran a scheme under which it gave away two pizzas for the price of one, within five days of an order being placed. During the same time, Pizza Hut launched a 'one rupee pan deal' scheme. Under the scheme, for every pan pizza purchased, another was given away for Re.1. In November 2000, Pizza Hut introduced a scheme called 'barah nahin to tera (if not served in 12 minutes, it is yours for free)'. The scheme offered a speed lunch in 12 minutes for Rs.89. One second over 12 minutes guaranteed that the customer would get it for free.

When Domino's supply chain management was revamped in late 2000 bringing down costs, it enabled Domino's to slash prices further. For instance, the price for a no-frills cheese pizza was down from Rs.75 to Rs.49. A 10" pizza with at least three toppings was available for Rs.119 as against the earlier price of Rs.225.

Source: "Pizza Wars", ICMR, ICFAI

be careful while using this strategy because the company initiating this strategy might be thrown out of business in case the competitors are very strong and can survive the price cuts.

- **Price matching / going rate pricing**

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

- **Price bidding/ close bid pricing**

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

## **INCORPORATING PERCEIVED VALUE INTO SERVICE PRICING**

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

### Exhibit 11.2

#### High-End IT in India

Many business process outsourcing companies (BPO) have cropped up in India in the past few years. India has a competitive advantage with a large English speaking workforce compared to other countries like China and the Philippines. The BPO industry in India has grown rapidly and is now moving up towards its maturity curve.

How can these companies survive in this situation? Many companies have realized that it is wise to improve their services by adding more value to them. Earlier, they were offering only software coding and maintenance services. Now they are moving up to IT consulting, infrastructure management, product development, systems integration, and package implementation.

*Adapted from Ribeiro, John, "Indian Outsources Tackle High-end IT", [www.computerworld.com](http://www.computerworld.com)*

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

## VALUE STRATEGIES IN PRICING OF SERVICES

How can a service provider improve his pricing strategies so that they reflect the value delivered to the customers? In order to answer this question, service providers should be in a position to determine what constitutes value for their target customers. Exhibit 11.2 gives an example of IT companies in India concentrating on adding value to their existing services. They should then communicate this value to the customers through their pricing structure. There are four strategies that can be used to create and communicate value to the customers. These strategies can be used in isolation or in combination. Satisfaction-based pricing, relationship pricing, efficiency pricing, and convenience pricing are the four strategies and are discussed in detail here.

### Satisfaction Based Pricing

This pricing method is adopted by service companies to remove the uncertainty in the minds of customers caused by the intangible characteristic of services. Service companies try to remove this uncertainty by adopting the strategies of service guarantees, benefit driven pricing, and flat rate pricing. Let us now discuss these three:

- **Service guarantees**

Service customers feel assured and satisfied when companies provide them with service guarantees. This helps, as it clears up a certain amount of uncertainty. For example, when a customer orders a Domino's pizza, he is assured of the delivery time as he is guaranteed a free pizza by the company if it does not meet its thirty-minute deadline. Similarly, Allianz Bajaj Insurance Company promises a minimum sum assured in spite of its investment in equity or debt funds. This reduces the perceived risk of the customer.

- **Benefit driven pricing**

Benefit driven pricing enables customers to derive the maximum value from the manner in which they use the service. For example, if a service provider sets up his photocopier to an office and charges them for the number of pages photocopied and not for renting the photocopier, it is benefit driven pricing. In such cases, there is a counter fixed on the machine that keeps track of the number of pages photocopied and the office pays for them at the end of the month. Here, the service provider's aim to deliver the core benefits to the customers and charge them for the same.

- **Flat rate pricing**

Flat rate pricing can be used in service companies that cannot develop a predictable pricing structure and where the costs are inefficiently managed owing to the labor intensive nature of the business. Flat rate pricing is adopted by a company if it satisfies the following:

- the company has a competitive flat rate to attract customers
- it should have an efficient costing system that provides a cushion for unanticipated costs
- it has extremely good relations with customers so that it gets more opportunities that might have been incurred in a service interaction

- **Convenience pricing**

Convenience based pricing aims to improve on the convenience to customers in the process of consuming services. For example, home-delivery of pizzas, home-delivery of groceries from the supermarket, etc., increase the convenience to customers in consuming the service. Service providers can also gain a competitive advantage by offering these services and can add value to the services offered. Exhibit 11.3 gives an example of how a matrimonial site offers its services to the customers

## Relationship Pricing

Relationship marketing requires service providers to maintain healthy relationships with the customers in order to retain them for longer periods. It also involves attracting new customers and nurturing a good relationship with them. The service provider is assured of repeat business and the customers are also benefited in the process as they find a dependable service provider. However, most of the strategies used by service providers are copied by their competitors. Therefore, service providers should closely analyze customers' needs and competitors' moves to decide on the incentives they would like to offer to the customers. Long term contracts and price bundling are two methods that are followed by service providers under this strategy.

- **Long term contracts**

Service providers often adopt this strategy to maintain relationships with existing customers and to attract new ones. In this strategy, service providers often offer price and non-price incentives to customers for entering into long term contracts with them. For example, Shopper's Stop offers a (First Citizen) membership to its regular customers, which entitles them to special discounts and schemes offered by the retail store. The retail store gets repeat business, with customers going back to them to avail of their special offers and discounts.

- **Price Bundling**

Companies that adopt the price bundling strategy offer two or more services at a time to their customers. This enables service providers to reduce the costs involved in delivering a second service to another customer. Further, it offers convenience to customers as they need not go through the whole process or visit another service

### Exhibit 11.3

#### **Bharatmatrimony.com – Find your Dream Partner!!**

Bharatmatrimony.com is a website that provides matrimonial services to Indian singles settled worldwide. Its services have tied up many singles around the world in marriage. It provides services on a regional basis. It serves people speaking Telugu, Kannada, Tamil, Bengali, Assamese, Marwadi, Oriya, Parsi, Punjabi, Sindhi and Gujarati, among others. People residing anywhere in the world can access its services with just a click of the mouse.

It provides basic matrimonial services like match making where a member can register for free on the website and can search through other profiles of his choice. A member can contact other profiles by paying a fee for a period of time. The search category is very efficient and provides up-to-date information round the clock.

Apart from these services, it also provides additional services like reserving marriage halls, and matching horoscopes. Further, it provides free services on issues like health, fashion, beauty, immigration, etc. There are different pricing schemes and customers can choose the scheme that interests them. It also publishes two magazines Desi Maker – US for the people in United States and Vaazhkai Thunai –India in Tamil.

These services are very convenient as anyone can access information from anywhere in the world. A member can opt to contact profiles of other members of the same language by opting for a standard payment of Rs.750 for three months and Rs.1100 for six months. A member can also opt to contact profiles of other members of all the 14 languages by opting for a premium payment of Rs.1300 for three months and Rs.1900 for six months. There are also easy payment options where the payment is collected at a customer's home. In addition, to make the payment easy, the company has tied up with Satyam i-Way, wherein anyone can walk into an i-Way center and pay the fee for accessing information.

*Source: [www.bharatmatrimony.com](http://www.bharatmatrimony.com)*

provider for consuming another service. Also, bundling increases the number of interactions between the service provider and the customers, thus improving their relationship.

## Efficiency Pricing

Efficiency pricing is based on understanding the nature of costs, monitoring them, and trying to decrease or eliminate them wherever possible, so that the savings can be transferred to the customer. Service providers can offer services at prices much lower than the market prices to customers, with the help of efficiency pricing. Activity based costing is a popular method employed by many companies to adopt the efficiency pricing strategy. This method analyzes each activity involved in service production till delivery and tries to restructure activities so as to reduce costs and drop activities that cannot add any value to the customers. Further, service companies that can improve efficiency through innovation gain a competitive advantage in the market. For example, Air Deccan offers a no-frills service to its passengers at almost half the fare of other airlines in India.

## ISSUES IN PRICING OF SERVICES

Pricing is a very important element of the marketing mix as the sales and profits of a firm depend to a large extent on the pricing structure of its products or services. A company should develop its pricing structure after careful consideration of factors like customer preferences and their buying patterns, legal factors, and the competitor's pricing structure. Further, the pricing structure should be compatible with the

company objectives. For example, when an organization aims to position itself as a premium service provider, it cannot offer low-quality services at cheaper prices. We shall now discuss some of the factors that should be considered when developing a pricing strategy.

- *Costs of production and break even analysis:* The pricing structure for any service basically depends on the costs incurred by the service provider on producing and delivering it. Fixed costs, variable costs, and overheads are the general types of costs incurred by any company. Break even analysis<sup>3</sup> helps a service provider determine the minimum number of service packages to be sold to recover the production and delivery costs of the service.
- *Demand levels:* The pricing decisions of any company depend to a large extent on the demand for its products or services. Service providers should analyze the various market factors responsible for fluctuations in demand. The economic environment and the customers' spending patterns, the present life cycle stage of the service, the effect of seasonal variations, the substitutes available in the market, competition in the market and the promotional activities of a company are some of the determinants of customer demand. Therefore, service providers should find out which of these factors influence the demand levels and to what extent. This helps them price their service accordingly.
- *Competitor pricing:* As discussed earlier in the chapter, service providers should have an idea of the pricing structure of competitors, especially in the case of price sensitive services. For example, if a photographer charges Rs.100 for developing and printing a roll and another a few yards away charges Rs.110, not many would bother about the difference. However, when a bank offers a housing loan at an 8 percent interest rate and another offers it at 9 percent, customers would certainly be attracted to the former. Service companies also focus on other elements of the marketing mix to win over customers. At the same time, a company cannot set very high prices for its services unless its offering is unique and distinct from those of competitors.
- *Marketing mix:* The other elements of the marketing mix have an influence on the price. The price should be an indication of the value derived by the customer, as already discussed. Price sensitive services should be communicated properly to the customers through suitable promotional activities. Further, price discounts, sales, price-cuts, etc., should also be communicated to the customers. The place where premium services are offered is also linked to the price a company can charge as also the quality of service offered by service personnel. For example, the staff at the Ritz Carlton offer premium customer service and also charge high prices. Finally, the process and the physical evidence should reflect the price charged and the value offered by the service.
- *Regulatory factors:* Government policies and guidelines of trade associations have an effect on the prices charged by companies in the industry. For example, the Department of Telecommunications (DoT) regulates the prices charged by BSNL for telecommunications in India.
- *Positioning:* The customer perceptions of a service, his evaluation of the service standards and his assessment of the service value also depend on the positioning strategy adopted by a company. For example, if a company positions its services in the premium range, then customers perceive them to be of premium quality and do not mind paying a higher price for obtaining the maximum value.

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<sup>3</sup> Break even analysis is a calculation of the sales volume required to cover all the costs. A company that sells above the break even point gains profit, and below the break even point incurs losses.

### SUMMARY

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Pricing is an important element of the marketing mix that brings in revenues and profits. The success of a service depends on the pricing strategy developed or adopted by the company. However, it is easier for customers to evaluate the value derived from goods, when compared to services. There are four ways in which prices of services are perceived to be different from those of goods. Service customers perceive the price as an indicator of the quality offered and they include non-monetary costs like time costs, search costs, convenience costs, and psychological costs involved in consuming the services, while estimating their value. There is difficulty in comparing the prices of services due to their specific characteristics such as intangibility. Finally, prices vary with fluctuations in demand.

A company's pricing structure should reflect its long-term and short-term objectives. A company might price its services to survive in the market, to maximize the current profit, to maximize the current revenues or to obtain a prestigious position or a product quality leadership. In order to achieve these objectives, a company might choose cost-based pricing, demand-based pricing or competition-based pricing. Further, a service company should analyze how far the customers perceive that the value derived from the consumption of its services is worth the price paid.

Further, service companies should understand the various ways in which customers attach value to the services for the price paid. Service companies can offer service guarantees, and adopt benefit driven pricing, or flat rate pricing to satisfy their customers. They can also enter into long term contracts or opt for price bundling in order to develop their relations with their customers. A company can also adopt efficiency based pricing to offer the maximum value to their customers.

Finally, the factors that influence the prices of services should be studied carefully. The costs of production and break even analysis, demand fluctuations, competitor pricing, the other elements of the marketing mix, namely product, place, promotion, people, process and physical evidence, regulatory factors, and positioning are some of the issues that should be considered when developing a pricing strategy.



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## **Chapter 12**

# **Promotion and Communication of Services**

**In this chapter we will discuss:**

- Importance of Communication and its Types
- Communication Issues for Service Marketers
- Objectives of Promotions
- Elements of the Promotion Mix
- Promotional Strategies for Services
- How to Design a Specific Service Promotion?
- Strategies for Effective Promotion

## Promotion and Communication of Services

*“Many attempts to communicate are nullified by saying too much.”*

*-Robert Greenleaf, ATT*

Promotion, like any other element of the marketing mix, is very essential for successful marketing of a product/service. Promotion has to be given a little more importance in marketing services due to their intangible characteristic. Service providers often find it difficult to tangibilize their services in order to appeal to the target customers. In these situations, promotional techniques help a service provider add tangibility to the intangible services, and thus reduce the perceived risk of customers. Some service providers like financial auditors, tax consultants and doctors do not promote their services aggressively due to the rules laid down by the regulatory authorities. For example, chartered accountants, lawyers, doctors, etc. cannot advertise their services on an individual basis. Therefore, they have to rely on word-of-mouth publicity, handouts, press releases, etc. to promote their services.

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

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

In this chapter, we shall discuss the importance of communication and its types, and the issues involved in communication for service marketers. Further, we shall learn the objectives of promotion and its different elements. The next section provides insights into the differences between promoting packaged goods and promoting services. We shall also understand the alternative promotional techniques. Towards the end, we shall learn strategies to design a specific service promotion and the necessary guidelines to come out with an effective promotional campaign.

### IMPORTANCE OF COMMUNICATION AND ITS TYPES

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

#### Internal Communication

A company's internal customers include its front line personnel, its employees in different functions and departments and the management. Internal communication helps a company enhance understanding and cooperation among the employees of a

## Services Marketing

department and between employees of different departments. An open communication channel gives them the feeling that they are a part of the team and this helps the organization retain and motivate them in the long run. It also increases transparency between the management and the employees. What type of information should a company communicate to its employees? A company should communicate with:

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

An organization can use oral or written communication, face-to-face or online communication or formal or informal communication to communicate with its internal as well as external customers. The various modes of communication that can be used are explained in Table 12.1.

**Table 12.1: Types of Communication**

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

## External Communication

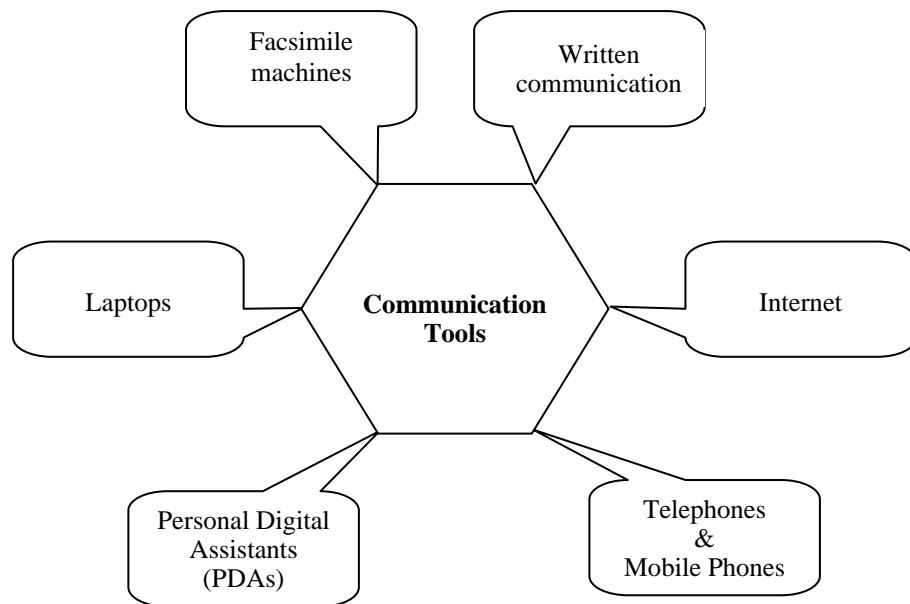
A company's external customers include its suppliers, business and individual customers, shareholders, foreign clients (if any), government and various regulatory boards, depending on the nature of service business. An effective external communication channel helps a company to communicate with its external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

## Promotion and Communication of Services

collaborations call for clarity in communication between the two companies on various aspects like the fundamental objectives of the company, financial policies, customer service standards, etc.

A company that communicates effectively with its external customers can reap the fruits of improved relationships with its customers, can create a good image of the company in their minds and give them an idea of the professionalism of the employees in the company. An organization can adopt various types of communication to communicate with its internal and external customers. For this purpose it can use various communication tools, which are diagrammatically represented in Figure 12.1.

**Figure 12.1: Communication Tools**



## COMMUNICATION ISSUES FOR SERVICE MARKETERS

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

- **Technology:** Technology helps an organization to communicate in a fast and efficient manner. At the same time, it can also be a source of problems that crop up in the course of conducting business. For instance, many domestic and foreign banks offer net banking facilities to their customers. If there is some problem with a bank's website or the network, the customers experience inconvenience and their impression of the bank is affected. Besides, if a potential customer logs on to the website and faces problems, he would form a negative impression on the bank and there is a possibility that he would opt for other service providers.

## Services Marketing

Similarly, many companies in the outsourcing business sector offer 24-hour customer care through their call centers. If some problem occurs in the telephone lines or in a company's internal communication channel, customers may be kept waiting or their calls may never be taken. Such instances may prompt a customer to switch to another service provider.

- *Budgetary constraints:* Some organizations may not have sufficient funds to install a good communication system in their offices. They might not even have enough employees to maintain a channel for smooth communication flow. Because of inadequate facilities, these organizations may fail to provide the best service to their customers. Therefore, they might tend to lose their existing customers and also fail to attract new ones.
- *Content:* In some cases, organizations may fail to communicate effectively due to insufficient or distorted content of the message. For example, say a hotel intends to advertise that a holiday package is available for '3 days and 2 nights for a couple' but releases a message that says, '3 days and 2 nights for a family.' A family might include a person's parents and kids as well and this would give rise to problems.
- *Delivery:* Communication issues in delivery arise due to wrong timing, wrong message, or targeting the wrong audience.
  - Often, telemarketing executives of service providers call up customers during business hours to inform them about their organization's service offerings. Customers get disturbed and develop a negative image about the organization.
  - Sometimes, service providers communicate incomplete or wrong information to their customers. For example, an insurance agent who does not know complete information about a certain policy might fail to communicate effectively with a potential customer. Further, the potential customer would form a bad opinion about the insurance company.
  - In some instances, the organization might end up targeting the wrong audience. For example, a cellular service provider might communicate the benefits of reduced charges on short messaging service (SMS) to the father in a family who rarely uses the service, whereas his young children might be more interested in the service.

## OBJECTIVES OF PROMOTIONS

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The objectives of business promotions can be varied. They can be used to attract the target consumers and sell the service to them; attract new intermediaries or to encourage the existing ones to improve business or to effectively handle competition in the market.

- Promotional campaigns are targeted at consumers to increase their awareness of a new service offering and encourage them to try it out. For example, They can be even used to primarily attract new customers and introduce the service to them.. Before Bharatmatrimony.com launched its services in Dubai, it sponsored Zee Cine Awards 2004, to create awareness among customers of the middle east. Promotions are also used to push the current customers to use the services more frequently. For example, Visa launched a promotional campaign for 2004 Olympics, wherein the customers get a chance to fly to Athens, if they use the card for a minimum amount of Rs.300 and answer a question whenever they do so. Further, promotional campaigns are also used to balance the demand fluctuations, and communicate the differentiated benefits offered by a service company.

## Promotion and Communication of Services

- Promotional campaigns can also be targeted at intermediaries to encourage them to offer new services or make the existing intermediaries give an extra push for the services. Promotions targeted at intermediaries can also be used to protect the trade from temporary situations of increase in prices that could result in sales reduction. For example, most insurance companies use promotional strategies to encourage their intermediaries, that is, the brokers and the agents, to do better business.
- The promotional objectives targeted at competition help a service provider to develop offensive or defensive strategies targeted at one or more competitors in the market.

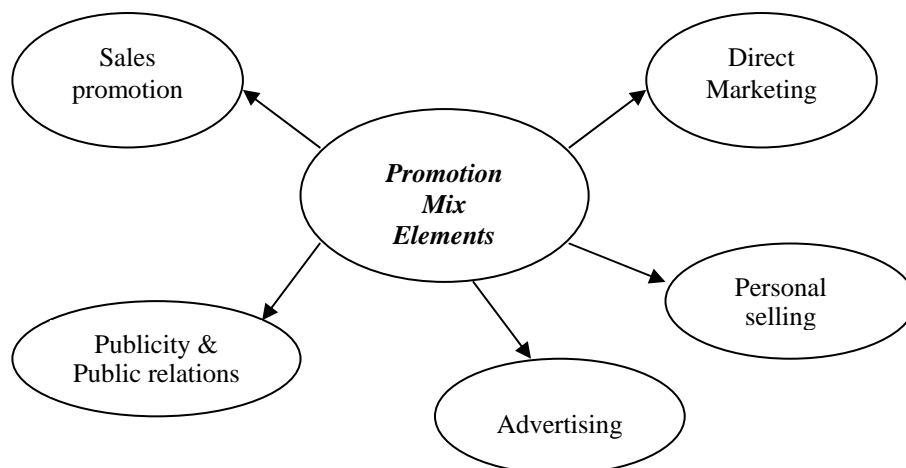
### ELEMENTS OF THE PROMOTION MIX

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A company's promotion campaign can consist of various communication programs developed by it. The main aim of these programs is to inform the customer about the benefits provided by a service provider through his services and also through the campaign. Further, these programs remind the customer of the service offering and persuade them to purchase the offerings of the company.

An organization should develop a promotional mix after careful analysis of the present and potential constraints, strength of the competition and their likely reaction, and the number of geographical areas to be covered by a communication program. The elements of promotion mix namely, personal selling, advertising, sales promotion, publicity & public relations, and direct marketing are represented in Figure 12.2. Exhibit 12.1 gives the example of a communications company that offers multidisciplinary services in India.

**Figure 12.2: Elements of Promotion Mix**



### Personal Selling

Personal selling involves persuading an existing or a potential customer through oral communication, to purchase the service offering of the company. It aims to develop a rapport with the customer and because of that, enjoys a high success rate. Different modes of personal selling include face-to-face conversations, tele marketing, or chatting on the internet. However, personal contact through face-to-face meetings are more successful in increasing business and building a rapport with the customer, when compared to the other ways. Exhibit 12.2 shows how insurance companies promote

### Exhibit 12.1

#### Multidisciplinary Communication Firm

Alok Nanda Communications (ANC) offers wide range of communication services than the regular ones. This multidisciplinary communications firm offers regular services like advertising, web design, and corporate communications. Apart from these services, it also offers additional services like retail design, dealer relationship communication and experiential brands. Earlier companies have to hire the services of professionals like architects for in-store displays and in-store communications. But ANC offers all these services under one roof.

Companies in the present market have various media options and they are turning to firms like ANC to develop these below-the-line promotions. Companies need to develop various promotional strategies through different media to reach all the target customers. Experts feel that these below-the-line promotions might gain importance in future than other promotional elements like advertising.

*Adapted from, Hiral Sheth, "No Limits", Business India, May 10-23, 2004*

their services through personal selling. Personal selling is an expensive affair as the sales personnel need to be trained well to offer good customer service. If they do not behave cordially with customers, it will cost the company heavily by degrading its image among customers. The costs are also high because the efforts of a service executive are all concentrated on one single customer at a time and if he rejects the business proposal, it would be a big wastage of time and resources for the executive. However, this loss is compensated by the usually high rate of success in personal selling. We shall now discuss the opportunities and advantages of personal contact, customer relations, and cross selling, involved in personal selling.

- Apart from retaining the existing customers, personal contact also enables a service provider to attract the attention of the prospective customers, create interest in their minds, increase their desire to purchase and persuade them to act and make a purchase. The four actions namely attention, interest, desire, and action involved in these situations constitute the AIDA model of communication. Personal meeting of service personnel with customers helps them understand their specific needs and offer service accordingly. This interaction also results in immediate customer feedback which helps in improvisation and customization of the service offering. For example, a customer's perception of an investment option is better understood when an agent talks to him personally rather than sending him the details through mail. Further, an agent will be able to assess the interest level of the customer and the his probability of purchasing the options. In some cases, the customers are unaware of their needs, or might have some apprehensions about the service offering. Sales personnel can be of immense help in situations as they can assist customers in identifying their needs, or in removing their apprehensions about the service offering.
- Personal selling creates an opportunity for the service provider to develop a relationship with the customer. The present day customer is educated, can differentiate between various services, values the quality of services, and is adventurous enough to try out new service offers. Companies which fail to observe these changes in customers' attitudes are bound to lose many valuable business opportunities. It is based on this assessment that service providers are offering innovative services like adventurous sports, bungee jumping, holiday at exotic locations, mutual funds etc. On the other hand, the relationship enhancement largely depends on the skill and attitude of the sales personnel. The sales personnel should be customer oriented by placing customer requirements



**Exhibit 12.2**

**Personal Selling Insurance**

Life Insurance Corporation of India (LIC) is a very old, government owned and trusted insurance company in India and there are many agents working for this company. It hires insurance agents who can work either full time or part time. These insurance agents are given training on the various aspects of insurance policies, the premium payment structure, process to redeem them, etc.

Each insurance agent sells insurance policies personally to the target customers. They explain the different types of policies to the customers and advise them to opt for a policy that is the most suitable for their needs and also convenient to pay. Insurance agents are especially helpful in rural India as people are illiterate and they do not know where and how to invest their money profitably. Further in their role as advisors, they also encourage people to pay the premium money regularly. These insurance agents receive a certain amount of commission on every policy insured. They also receive a particular percentage of commission if the insurer regularly pays the policy premium amount.

Many private players like Prudential ICICI, TATA-AIG, AMP-Sanmar, Bajaj Life, HDFC-Standard, etc. have entered the market after opening up the insurance industry. Competition in the industry has increased and the importance of personal selling has also increased so as to attract new customers. However, the extensive reach of LIC cannot be achieved by these insurance companies in rural parts of the country.

*Source: ICMR*

and desires before anything else, should be competent with good knowledge and expertise in the area of business, should be dependable, honest, and should be able to attract customers. For example, when a service executive approaches a customer with a proposal of selling a holiday resort membership, he should be equipped to answer all customer queries on the subject. Suppose the executive represents Holiday Inn Resorts and the customer questions him on a competitor's offering like that of Mahindra Holiday Resorts, the executive cannot say that he knows nothing about it. So, it is important for the service personnel to have a knowledge of competitor's offerings too.

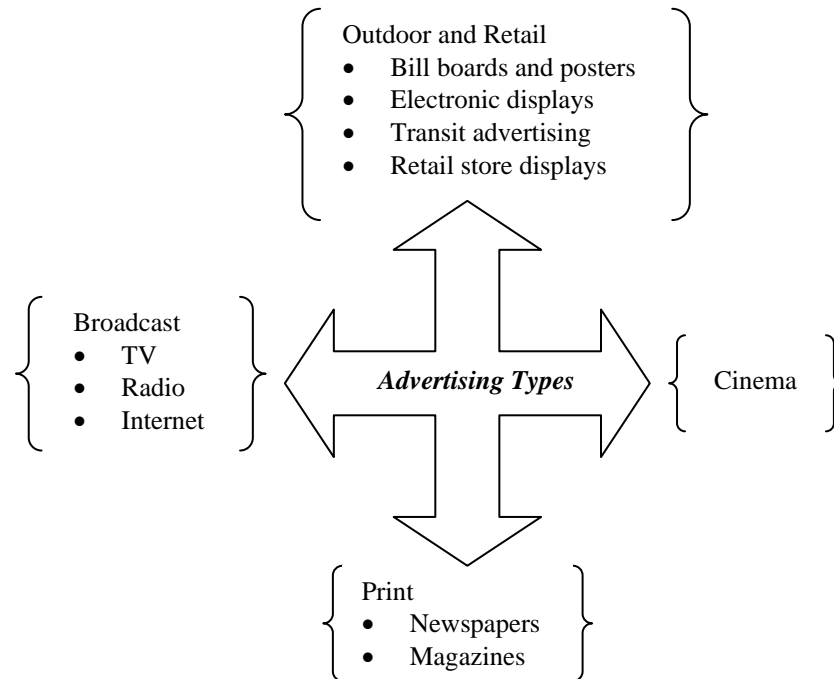
- The third advantage is that of cross-selling, where in sales personnel can sell a range of services to the existing customers, based on their earlier relationship. For example, it is easy for a coach at a healthclub to persuade customers attending yoga classes to opt for nutrition / diet advisory services too.

**Advertising**

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

Service providers should involve front-line employees in designing the advertising campaign as service personnel directly interact with customers during the process of selling and they would understand what appeals to them. A company's image is damaged if its service personnel are inefficient, behave rudely, or are careless in dealing with customers. The word-of-mouth publicity is a powerful advertising tool for a company and its services. Service providers should therefore educate their employees on the importance of customer service and motivate them to perform better. For example, the Taj group of hotels in India has introduced a scheme where their personnel are rated by visitors at the hotel for their customer service. Such schemes encourage service personnel to perform well.

**Figure 12.3: Types of Advertising**



The second aspect to be considered is the variability in services i.e., the way services are delivered differs from one service provider to another. Even if the service offering is the same, due to the attitudes, expertise, and skills of service personnel involved in delivering the services, the actual delivery can be different. Customers can easily find out these difference and they indulge in word-of-mouth publicity, thus making or marring the business of the service provider. To capitalize on this word-of-mouth publicity of satisfied customers and attract new customers, a company can publish newsletters with customer comments and circulate them among potential customers.

Service customers face high perceived risk due to the intangibility of services, as discussed in earlier chapters. Therefore, service providers should design advertising campaigns that attach tangible clues to the intangible services. For example, an airline might advertise its friendly and pleasant employees interacting with customers, and the rewards it recieved for safe and punctual travel. This will assure the potential travelers in terms of safety and customer service.

In addition, companies should advertise services that they can possibly deliver. Companies should not cheat the target audience by making unrealistic promises. A company's failure to keep its promise can prove to be more damaging to its business, than making no promise at all. Finally, a company that advertises its services through various media on a continous basis is better recognized by customers than a company that rarely advertises its services. Figure 12.3 gives a diagrammatic representation of the different media that can be used by firms for advertising. Exhibit 12.3 gives an example of the advertising campaign of a cellular service provider in India which achieved a significant position in television and print media.

A company can improve its brand image and brand equity with the help of advertising. It also helps the company in differentiating and positioning its services from those of its competitors. However, advertising involves high costs, its results are spread over time and therefore the returns cannot be measured immediately. When a business is passingthrough a rough phase, one of the first cost-cutting measures is

**Exhibit 12.3**

**Advertising Services**

A survey is conducted by BT-TNS India to find the top 10 advertising campaigns in television and print media has rated the “HUTCH: YOU AND I” commercial as number fourth in television advertising, and the “HUTCH: WHEREVER YOU GO” campaign as the top print media advertising. Ogilvy & Mather Advertising developed both the media ads.

The familiarity of the brand, brand-fit, uniqueness, and credibility are the parameters considered for the study. Hutchison’s advertisements have induced interest among potential customers. This has further increased the awareness of the brand and customers became more familiar with it. These advertisements have also increased the credibility of the services, and their uniqueness.

The television advertising campaign is aimed to communicate the launch of successful mobile network, their first idea is to include a little sister following her brother everywhere. However, they have included a ‘pug’ that follows a little boy wherever he goes. The ‘pug’ is a symbol of the service network, which follows the customer everywhere. This ad has attracted many customers and increased the sales of its service.

The print media advertising campaign, which was also developed by the same advertising company, used the ‘pug’ following the little boy in to the barber shop. The advertising firm aims to communicate that the services are available everywhere through the pugmarks even in the lift.

*Adapted from, “India’s Best Ad Campaigns”, A BT-TNS Study, Business Today Special, May 23, 2004*

taken on the advertising front. Most companies try to cut down their promotional and advertising costs due to budgetary constraints. However, they should use their discretion in this situation as most companies might need the support of advertising for improving their business. Another alleged issue with advertising is that it targets the wrong target customers and takes advantage of their emotions to increase the company sales. One example of such allegedly unethical advertising can be the advertisements of slimming tablets targeted at young college going girls. These teenagers can ruin their health in the madness of slimming down, without proper medical guidance.

**Sales Promotion**

Sales promotion is often used by companies to improve the sales of a product or service either by encouraging the existing customers to use the services more frequently or by attracting new customers to use their services. Companies adopt different sales promotion strategies for end consumers, intermediaries, and sales force. Companies aim to pull customers to regularly use their services by attracting them with free offers, coupons, cash discounts, warranties, prizes, contests, etc. For example, some banks like Andhra Bank promote their credit cards to potential customers by offering free user charges for the first one year of issue. Further, they push the intermediaries to improve the sales of their by offering them discounts, providing them allowances to advertise, announcing awards, etc. Companies also adopt a different set of methods to encourage sales personnel to sell more. This can be done by adopting performance based compensation methods and giving them bonuses, prizes and awards for exceptional performance. For example, a credit card company normally awards commissions to its sales personnel based on their performance.

Sales promotion strategies are used by companies to stimulate potential customers to try their services or to attract competitors’ customers to shift loyalties. For example, Club Mahindra offers free holiday packages to potential customers and thus tries to encourage them to buy club membership. Most credit card companies like HDFC bank offer free transfer of balance and low interest charges if the customers transfer

## Services Marketing

their credit balance from other credit cards. Though sales promotions tend to increase sales for a period, there is a problem that this increase in sales stops or in fact comes down as soon as the promotion scheme is withdrawn. Therefore, companies should not ignore the other elements of promotion mix and concentrate on sales promotion strategies alone.

### Publicity and Public Relations (PR)

Companies use publicity campaigns to bring in awareness about their offers among the existing and potential customers and even the general public. Publicity involves using of information that induces interest towards a company, event, or person. Publicity is also a mode of mass communication similar to advertising. Examples of publicity includes event sponsorships, charitable donations, etc.

On the other hand, public relations is meant to maintain good relations with a company's employees, customers, stockholders, government, regulatory authorities, and the general public at large. It is aimed to enhance a company's image and prestige among its internal and external customers. A company's PR activities might include press releases, news and articles on the company, statements of senior management, conducting press conferences, oral and written audio and video messages directed at the target audience, public services official web sites, and corporate identity materials like brochures, logos and stationery.

### Direct Marketing

Direct marketing involves contacting the existing and potential customers directly through telemarketing, direct mail, and online marketing (e-mail and official web sites), without employing any intermediaries in the process. The positive aspects of direct marketing include direct interaction with customers, immediate feedback from them, and facility to customize for groups of customers or individuals. These features might not be there when a company employs the services of intermediaries. For example, say the customer of an insurance company needs some specific information or a customized change in the service offering of the company. While the intermediary might not be in a position to respond to customer's satisfaction, a direct employee of the company would be better equipped to do that. Marketers can also have a direct feel of the customers' pulse, which helps them in understanding their requirements and preferences better. Direct marketing helps companies to give a personal touch to their marketing activities. Further, it is less expensive on a cost-per-order basis and proved to be quite efficient especially in some specific business situations.

## PROMOTIONAL STRATEGIES FOR SERVICES

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The fundamental characteristics of services differ from those of packaged goods. As we have studied in the earlier chapters, services are characterized by intangibility, variability, and perishability. The differences between the promotional strategies of packaged goods and services arise due to these special characteristics. Let us now discuss the differences between services and packaged goods in the context of promotion:

- *Services cannot be inventoried:* Services are perishable in nature and they cannot be stored for future use when the demand would be high. Therefore, matching demand with capacity becomes a challenge for service marketers. One way to match demand and capacity is to decrease the usage during peak demand periods and increase it during off-periods. This can be done through price discrimination. However, this strategy will be successful only if service providers are able to communicate the price changes to the target audience on a regular basis.

## Promotion and Communication of Services

On the other hand, promotion of packaged goods has little necessity to match supply and demand as the capacity can be altered to suit the demand at the manufacturing stage itself. Further, temporary promotions by marketers of goods encourage customers to purchase in bulk and store them, enabling marketers to reduce their holding costs of inventories. Though it is impossible to store services for future use, service marketers can attract customers to use their services more frequently by offering them memberships in the form of advance purchases or loyalty schemes. While advance purchases offer convenience to customers, loyalty schemes offers price discounts. For example, many airlines offer frequent flier schemes that allow a price discount on the subsequent travel, once a customer collects a certain number of points.

- *Reduced role of intermediaries:* Promotion planning for packaged goods requires distribution of available resources among advertising, trade promotion and consumer promotion. Whereas, services that are sold directly in the market do not require any trade promotion. That is, as the role of intermediaries is limited or even non-existent, there is no need to promote them. Intermediaries come into the picture only in a few service industries like travel and insurance. These companies hire agents and brokers and reward them aptly to successfully compete with the other players in the industry. Therefore companies have special promotional policies for intermediaries as well, as discussed earlier.
- *Role of service personnel:* Service personnel play a key role in customer interaction and in the service delivery process. A customer's perception of the image of the company and his satisfaction with the service depend to a large extent on the his/her interaction with the service personnel. In contrast, there is relatively less responsibility for sales personnel in packaged goods industry as the actual product also has a role to play in customer satisfaction. Service companies can differentiate their services and gain a competitive advantage through their customer service. Therefore, service providers like airlines and hotels advertise the quality of their service and the commitment of their personnel. In fact, according to company sources, the Taj group's 'She's the Taj' campaign was meant to emot what a woman (in this case the customer service personnel) stood for in terms of warmth, caring and hospitality.
- *Service delivery location:* Service delivery location also adds to the credibility of the service provider and his service. For example, a spacious, well-lit and well-ventilated cyber café in a complex would attract more customers than a narrow and dingy café in a by-lane. Customers rate the service provider depending on the ambience of the place too. Further, the physical evidence at the service provider's location tangibilizes the service and thus reduces the perceived risk of the customer. Therefore most service providers advertise their service location. They even resort to PR initiatives when any changes are made to their locations or new ones are added. For example, when TCS (Tata Consultancy Services) opened its new office in Hyderabad in a magnificent 30,000 sq. ft. building, there were news items in newspapers and magazines, announcing it.
- *Customer as a co-producer:* Unlike packaged goods where customer is not involved in the production process, some service industries require customer's involvement in the production process. For example, selecting investment options, ordering menu in the restaurant, etc. require customer's participation. Therefore, service providers stress on the role of the customer in their promotion campaigns. At Masala Art, promoted by the Taj hotel in Delhi, the chef cooks the food in front of the customer, in the manner he desires. This maximizes the scope for the customer in designing the service the way he wants.

## Services Marketing

In view of the above differences between service industry and packaged goods industry, service providers can adopt any of the following promotional techniques:

- *Sampling*: It is a technique for promoting products and services by offering them as a sample, free of cost. It is more widely used in packaged goods than services. However, some service industries like credit card companies, tourism packages, etc. offer free services during their promotional period. For example, Mahindra Holiday Resorts sponsors a free trip for a select few prospective customers to exotic locations like Munnar and Shimla. Once the customers feel satisfied with the promotional offer, they might opt for a life membership at the resorts.
- *Premiums*: Premiums provide tangibility to services. This is used more regularly in insurance sectors where differentiation of services is not possible otherwise. An insurance company might fix the premiums depending on the initial deposits or the amount of policy insured by the customers.
- *Prize promotions*: Prize promotions are adopted to keep up the interest of customers and involve them in the service consumption. For example, when Channel [V] along with Coca-Cola conducted a search for the first-ever all girls pop-band in India, they gave away cars to the viewers who guessed the five girls that would be included in the band finally.
- *Price/Quantity promotions*: These promotions include reduction of price for a category of customers or all customers for a limited time. For example, a company might offer a price reduction for the first fifty customers who will consume the service.
- *Refunds and future discounts*: These type of promotions aim to increase brand loyalty among customers and promise them certain amount of refund or discounts in future. For example, airlines offer discounts as per the mileage points collected by its frequent fliers.
- *Coupons*: Coupons may be offered for a direct reduction in price, free service for one or more persons with the original customer, or a discount on the original service offer. For example, some restaurants like GreenPark at Hyderabad offer a free dinner to kids accompanying adults, during a promotional campaign.

## HOW TO DESIGN A SERVICE PROMOTION?

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Designing a service promotion is not an easy task as it involves adding up tangible clues to the service and attracting the customers. Also, the company has to take care to avoid all the pitfalls possible in terms of excess costs or dwindling sales in the post promotion period. A service provider should first identify the services to be promoted, choose the target audience for the promotions, estimate the value to be added to the service brand, decide the timing and duration of the promotional campaign, the techniques to be used, and finally, determine how the promotion is different from those of competitors. Let us now discuss these aspects in detail:

### Which Services to Promote?

The answer to this question depends heavily on the service provider's situation in the market. If the service provider is under heavy pressure from competition and his aim is to survive in the market, he may opt to promote his services accordingly. If a service provider's aim is to attract new customers, then he should opt to promote a low-risk and relatively inexpensive service which will do the job successfully. Once new customers are attracted to the service, a service provider can sell other services apart from the original service offered (Cross-selling). On the other hand, if the service provider's aim is to stop the competition from snatching away customers, a

## Promotion and Communication of Services

service provider can opt to increase the period of contract with customers. For example, financial service providers can prolong the contract period of the customers to keep the competitors at a distance.

### **Who would be the Target Customer?**

Service companies have an opportunity to target their promotional campaigns to a specific market segment or to the entire market. For example, Disney World can promote its services to children below 12 years of age. This kind of promotion targeted at demographic segments is not possible in packaged goods industry. Further, services are flexible compared to packaged goods and have numerous opportunities for price differentiation. For example, a packaged goods company cannot charge different prices for children and other customers on a bottle of health drink. However, a services company can charge different prices for adults and children while traveling.

### **What would be the Value Added to the Product/Brand?**

Service providers should be careful when assessing the value to be offered to the customer. Factors like promotional objectives, costs of promotion, and customer perceptions of value should be considered while developing value promotions. These can be of two types. In the first type of offering, the same service or an upgradation can be offered for a lower price, through price/quantity promotions. In the other type, the customer is offered more for the same price through premiums and sweepstakes.

### **Is the Timing Right for Promotion and how Long should a Promotional Campaign be Run?**

Service providers often face the question of when should the promotional campaign be launched, for how long should it be run, and how frequently should it be offered. The timing of the promotional campaign depends on the demand fluctuations in the service demand. For example, airlines can run promotional offers when the market demand increases for air travel or when the competition is strong in the market. The duration of the promotional campaign should be based on the value of the service offering, the target consumer's purchasing power, and finally, it should be extended to make sure that most customers are covered by the campaign. The frequency of promotions depends on the existing competition in the market and the target customer's purchase cycle.

### **Who is benefited from the Promotions?**

Service providers should carefully identify the group of customers whose purchase behavior needs to be influenced by the promotional campaign. After identifying the target customers, companies should verify if the end consumer is benefited directly. For example, many business travelers are not personally benefited through the frequent flier programs because the discounts and premiums offered by airlines are redeemed by the company that employs them.

### **How to Differentiate a Promotional Campaign?**

Often, service providers find it difficult to differentiate their promotional campaigns from those of their competitors. A service provider who has designed an innovative promotional campaign soon finds his competitor in the market imitating it. To avoid this, a service provider should design a promotional campaign that cannot be easily imitated by competitors. Otherwise, it should enter into agreements with other service companies to develop joint-promotions that makes it impossible for the competitors to imitate easily.

### STRATEGIES FOR EFFECTIVE PROMOTION

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Some service companies fail to design promotional campaigns without waste of time and money. Even if a promotional campaign proves to be effective, its positive effects may be nullified by the value of resources wasted in the process. The following guidelines can be helpful in implementing an effective promotion with minimum or no wastage of time and resources:

- *Effective planning:* Service organizations should develop a promotion calendar to answer the questions discussed in the earlier section. Further, an exclusive promotion department in the marketing division of an organization would help a service company monitor the promotional process continuously. This will result in variety and innovativeness in the promotions, and a common thread of consistency can be maintained in developing the various campaigns.
- *Focused objectives:* Service providers should set one or two objectives, as it would help them do a better job. The choice of objectives should be according to their promotional expenditures rather than expecting too much from a single campaign and hoping to achieve too many objectives with one promotion.
- *Perfect timing:* Service providers should decide on the timing of the promotional campaign, its duration and the frequency of such campaigns. Service providers should not extend the campaign to the extent that consumers tend to think it is a permanent offer. These situations can cost the service provider heavily.
- *Adding value through tie-ups and promotion overlays:* Often, service providers offer promotions in packages either by including other services of their own company or by tying up with other service companies. Further, if service providers tie-up with packaged goods then these promotional offers are quite attractive. For example, Hutch offers discount coupons to its customers, which can be availed on purchase of greeting cards or gift items from Archie's. On the other hand, service companies can use two or three promotional techniques at one time.
- *Employee motivation:* A successful promotional campaign requires the efforts of the entire sales force and the marketing team. Therefore, service companies should motivate their employees, consumers, sales intermediaries, etc. by using both push and pull strategies effectively.
- *Well-differentiated campaign:* Service companies should ensure that their promotional campaigns are well understood and well-differentiated from those of their competitors.
- *Regular evaluation of the campaign:* Service companies should evaluate the increase in sales due to the launch of promotional campaigns. This helps them assess the value added by the promotions and evaluate their campaigns to identify avenues for improvement.

### SUMMARY

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Service organizations can retain existing customers, attract new customers, increase brand awareness, build business, reduce their perceived risk and finally, gain the trust of their customers through promotional campaigns. Service companies should first understand the importance of communication in an organization with its internal and external customers. It should also learn the various tools used for internal and external communication and employ them effectively. Further, an organization should have an idea about the likely issues that might arise in its communication with internal or external customers. These issues might be due to technology, budgetary constraints, content and delivery.



## Promotion and Communication of Services

Further, an organization should understand and clearly formulate the objectives for promotion. These objectives may be targeted at customers, intermediaries, employees or competitors. After deciding on the objectives for promotion, an organization should understand the elements of the promotion mix and use them in the right proportion. The complete communication programs of an organization constitute promotional mix. These are personal selling, advertising, sales promotion, publicity, public relations, and direct marketing.

A service company should also have a knowledge about the basic differences between packaged goods and service industries to design effective promotional techniques. The service personnel play a more important role in service delivery when compared to packaged goods. The delivery location is also important in services and finally, a service customer acts as a co-producer unlike in packaged goods industry. Keeping these differences in mind, a service company can opt for any of the promotional techniques like sampling, premiums, prize promotions, price/quantity promotions, refunds and future discounts, and coupons.

While designing a specific promotion campaign, a service organization should be able to answer questions like which services are to be promoted, who are the target customers, what value is being added to the service, when should the campaign be launched, how far it should be extended, who are the beneficiaries of the campaign and finally, how can a service firm differentiate its promotion from those of competitors.

Answering the above questions will help a service organization design a service promotional campaign. However, some promotional campaigns still fail as they consume a lot of time and resources and might prove ineffective. Therefore, guidelines are provided for effective promotional campaign. An organization requires to plan effectively, should have focused objectives, the campaign launch should be perfectly timed, and it should add value by tie-ups and promotional overlays. Further, an organization should motivate its customers, intermediaries and employees, involved in the sales and marketing departments of an organization through its promotional campaigns. Finally, it should develop a well-differentiated campaign from its competitors and regularly assess the success of a campaign.

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## **Chapter 13**

# **Place in Services**

**In this chapter we will discuss:**

- Significance of Location
- Channel Decisions
- Direct Distribution
- Key Intermediaries in Service Delivery
- Strategies for Effective Service Delivery Through Intermediaries

## Services Marketing

*"Every intelligent channel strategy begins with a customer segmentation analysis."*

*"End users purchase products and services from indirect channels because they offer a number of benefits."*

**- Kenneth Rolnicki, "Managing Channels of Distribution - The Marketing Executive's Complete Guide"**

ICICI Prudential Life Insurance has developed a multi-channel distribution strategy to market its insurance products. This distribution strategy includes bancassurance (offering banking and insurance products at one place), direct marketing through individual agents and financial service consultants, and corporate agents. ICICI Prudential Life runs its operations at 23 locations and some of them have many branches. The company has won several awards for its innovative distribution strategies. In the year ended March 31, 2004, the company had issued over 430,000 policies, for a total assured sum of over Rs 8,000 crore and a premium income in excess of Rs. 980 crore. The company has a network of about 30,000 advisors as well as 12 bancassurance tie-ups. Today, the company is the top private life insurer in the country.

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

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

In this chapter, we will discuss the significance of location in services and the various channels available for distribution of services. We will also discuss the concept of direct distribution and methods to distribute through key intermediaries. Finally, we will study the strategies for effective service delivery through intermediaries.

## SIGNIFICANCE OF LOCATION

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The location of a service firm is an important aspect of service distribution, as it involves decisions regarding the place of operations for service packaging and the place of service delivery to the customers. The importance of the place may vary depending on the extent of interaction between the customer and company. For example, for services like restaurants and airlines, the location of the service firm is very important. On the other hand, for services like online booking, home delivery, etc., location is not as important. The interaction between a service company and its existing or potential customers can take place in three possible ways:

- *Customer visits the service provider:* The location of the service firm assumes a lot of importance when the customer visits the service provider. The location of the service provider can convey the tangibility of the service, and thus reduce the risk perceived by the customers in consuming the service. The location of restaurants, health clubs, beauty clinics, banks, etc. conveys the quality, availability, accessibility and reliability of the services to the customer.

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

## CHANNEL DECISIONS

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

Today, many service providers are looking for alternative channels of distribution without relying on direct sales alone. They were concentrating on the traditional distribution channels earlier, but are now looking at innovative methods of taking their service to the customers. Exhibit 13.1 gives the example of a private insurance

### Exhibit 13.1

#### Distributing through 'Dabbawallahs'

ICICI Prudential Life Insurance has discovered an innovative way to distribute its products and services to potential customers in Mumbai. The company found that over 2 lakh people employed in offices in Mumbai get their lunch from the 'dabbawallahs' who have a wide distribution network that is extremely reliable. The company sends around 50,000 direct mailers to office-goers in Mumbai by hanging a mailer to the handles of meal dabbas.

The distribution of these mailers is timed perfectly- they are distributed around the end of the financial year when most of the employees are thinking of saving on tax and planning to invest in some financial policies. The first line of the mailer aims to attract the customers. It reads, 'Yes! I want to save more tax and add to my retirement savings.' Interested customers are required to fill in the forms and mail them to the company specifying a time and date convenient for them to interact with the company's agent. Further, the company has also tied up with Dominos Pizza and BPCL loyalty-card holders in some cities to expand its distribution network.

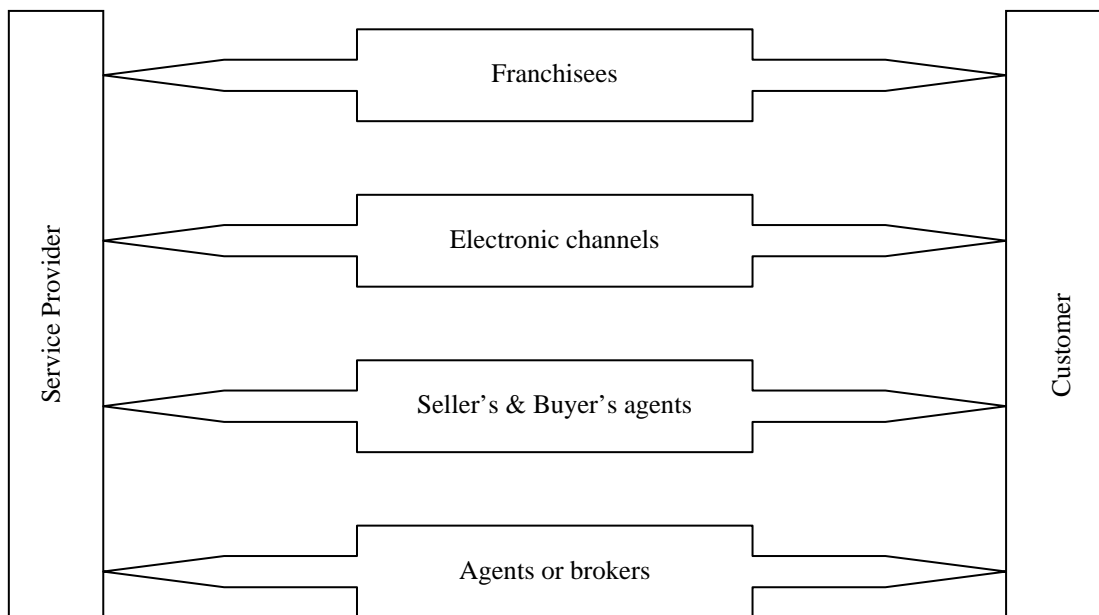
Abhishek Bhatia, Marketing Manager in the company feels that micro marketing should be given importance and companies should try to make efforts to understand the local medium to communicate better with customers. Further, he feels that there is a necessity to stand out from the crowd and select a way to reach potential customers through a local medium that does not get mixed-up with the message from other competitors like TV and radio. However, this distribution channel is successful if and only if it suits the target audience and the costs are managed. Mr. Bhatia feels that this distribution channel will be successful and achieve international standards through direct marketing, even if 4-5% of the target audience would become policyholders.

*Adapted from Poornima Mohandas, "The message comes with the meal dabba," The Hindu Business Line, Feb 27, 2004*

## Services Marketing

company in India that has discovered a novel way of distributing its services. Some service providers continue to sell their services directly to the customer, as in management consulting, and hotel businesses or through agents or brokers as in insurance, travel, real estate, etc. Services are distributed through sellers' and buyers' agents or brokers as in stock broking and portfolio management; or through franchises as in education and fast food etc. NIIT and Aptech for example, operate through their franchisees across the world. Figure 13.1 gives a diagrammatic representation of various channels available to the service providers.

**Figure 13.1: Channel Options for Service Providers**



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

Intermediaries benefit the customers by saving them time and offering them the convenience of utilizing the services. For example, many cellular companies like Airtel, Hutch, Idea, etc., offer their services to the customers through agents who sell the prepaid cards, recharge the cards, etc., at different locations. This makes the service easily accessible to the customers and thereby improves business for the company. Exhibit 13.2 explains how it is important for filmmakers in India to woo the global audience by building up relationships with global distributors.

Service providers should consider the following factors when making channel decisions:

- The channels chosen by the service provider should ensure easy accessibility and convenience for the customers to interact. For example, many banks offer the ATM facility to customers, to make it easy for them to avail of some of the basic facilities of the bank.

**Exhibit 13.2****Bollywood Finds Global Audience**

Indian filmmakers have started making films that appeal to a global audience. Films like 'Monsoon Wedding' and 'Bend it like Beckham' were major hits outside the country. Filmmakers have realized that the global audience has a taste for Indian cinema. However, making and releasing films for Indians in foreign countries is not feasible as a foreign distributor buys a film for the entire country and not a single section.

On the other hand, it is important for Indian filmmakers to build relationships with global sales agents and distributors who serve as a bridge between the film and its global distribution. A major challenge lies in finding the right agent to distribute a film. Further, filmmakers should also know what a global agent is looking for in an Indian film that will make it appealing to the global audience.

The marketing of Indian films in international film festivals will help the global audience get to know Indian art and culture through Indian films. The Indian film industry is still in the fundamental stages of international distribution and sales activities. It still has to create films that appeal to the Indian and international audience and thus build a brand for its films.

*Adapted from Jigna Kothari, "Scripting for a Global Audience", USP AGE, March 2004*

- These distribution channels should add some value to the customer. For example, in the above example, it is convenient for the customers to make any transactions through an ATM, rather than spending time in visiting the bank branch and waiting in the queue there.
- The channels chosen should not eat away into margins of the service provider i.e., they should suit the service provider's budget. For example, a service provider should not think of opening franchises or hiring agents when it is not financially feasible for the company.
- The channels chosen should cover all the target markets. For example, some of the banks and financial institutions are looking at micro financing to target a large customer base in the rural parts of the country.
- The channels chosen should be reliable. For example, when a financial services company hires the services of an agent, it should ensure that the individual is reliable and does not dupe the customers in the name of the company

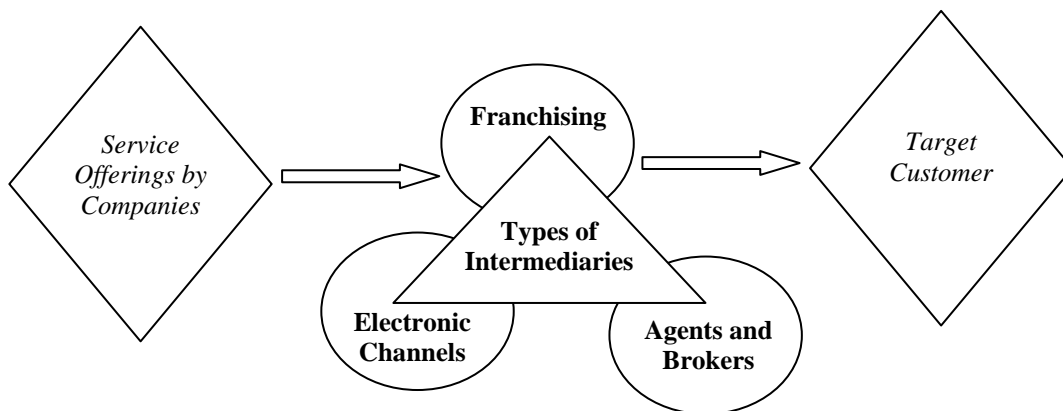
## **DIRECT DISTRIBUTION**

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

- **Control:** A service company enjoys greater control on its operations and services through direct distribution. It can also maintain high quality and greater consistency in its service offerings when compared to a franchise. The service provider can monitor the operations directly and check their compliance with the service standards. Further, the company can have direct control over the recruitment of staff, their motivation and their performance.

**Figure 13.2: Primary Channels in Service Distribution**



- *Healthy customer relationships:* Direct distribution helps in maintaining healthy and strong relationships with customers. It improves clarity in communication between the service personnel and the customers, bridging gaps and removing any scope for misunderstanding. The company can ensure a strong relationship with the customers, thereby enjoying the different benefits of loyal customers, like repeat business and positive word-of-mouth publicity.
- *Flexibility and confidentiality:* In distribution channels like franchising, the franchisee has to strictly follow the rules laid by the franchiser to maintain the set service standards. This might result in a few dissatisfied customers moving away or shifting to competitors. In direct distribution, the service provider is free to make changes to the service or the service location according to his convenience or the customers' desires. This flexibility in service delivery helps to customize the service. In addition, direct distribution helps the service providers maintain the confidentiality of their core competencies without the need to share them with other distributors.

Direct distribution is disadvantageous in the following ways:

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

### **TYPES OF INTERMEDIARIES FOR SERVICE DELIVERY**

Some service organizations choose alternative channels of distribution for various reasons like lowered risk and wider reach. They distribute services through intermediaries like franchisees, agents and brokers, and electronic channels. Figure 13.2 gives a diagrammatic representation of the distribution system and the different types of intermediaries. Service companies package the services and distribute them to the customers with the help of these intermediaries. A service organization provides licenses to franchisees to sell its services according to the standards or rules set by the



organization. For example, Cafe' Coffee Day has many franchisees located in the Indian metros, and NIIT, which provides computer education, has franchisees across the world. These franchisees have to maintain the customer service and quality standards set by the parent company. Service companies, especially those in the finance business, hire representatives in the form of agents and brokers to sell their services. A particular agent might, however, be free to sell the services of many suppliers. For example, an insurance agent might sell the insurance services of Life Insurance Corporation of India Ltd. (LIC), ICICI Prudential and MetLife. Some companies opt for electronic channels of distribution like the telephone, television, and the Internet. Let us discuss these three intermediaries in detail:

### Franchising

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

#### Franchiser's view

A franchiser is a service company that develops a unique standardized service and seeks to distribute its service to customers through the franchise model, thus expanding its business across different locations in a country or different countries. Some examples of franchisers in India are NIIT, Barista, McDonald's, Lakme beauty salons and Bharatmatrimony.com. A franchiser is benefited in the following ways by adopting this model of distribution:

- **Business expansion:** Business expansion is one of the major benefits of franchising, from the franchiser's point of view. It helps the franchiser establish an extensive distribution network.
- **Improved revenues:** Business expansion also brings in more revenues, economies of scale, greater market share, and domestic or international brand recognition.
- **Reduced risk:** Franchising also helps a franchiser share the risks involved in business expansion, namely, financial, political, or cultural risks, with minimum investment. The franchisee invests on behalf of the franchiser, who just lends him his brand name and the standardized service.
- **Consistency in service offering:** Franchising helps a franchiser maintain consistency in all business processes like training the service personnel, deciding the pricing structure, designing the store outlet and the delivery processes of services.
- **Local presence through global franchising:** The local knowledge gained from franchisees helps a franchiser to modify services according to the tastes of the local target market. This is what McDonald's did to make their products more suitable to the Indian palate.
- **Increased working capital and minimized financial risk:** As a franchisee is required to invest the capital required for the business and bear the costs of infrastructure and equipment and cost of maintaining the service personnel, a franchiser's burden of investing on additional outlets is reduced. For example, Satyam i-way has its Internet centers across the country and the franchisees invest money for the infrastructure of the Internet center.

## Services Marketing

Though a franchiser gets certain benefits from franchising, he also has to face a few challenges and these are discussed below:

- **Trouble in motivating franchisees:** A franchiser often faces difficulty in motivating his franchisees to maintain the standards he has set by him in pricing, promoting, hiring, and delivering services.
- **Conflict between franchisees and franchisers:** There is scope for conflict between the franchisers and the franchisees as both aim to maximize their returns.
- **Quality maintenance:** Some franchisees might not follow the standard procedure, which leads to a decline in the quality of the service, affecting customer loyalty and patronage. When this happens, it is not the franchisee, but the franchiser who loses, as he owns the brand.
- **Relationship with the customers:** In some cases, customers develop a strong relationship with the franchisees. They are loyal towards them rather than to the franchiser. So, when the franchisee shifts to another franchiser or starts his own business, all his loyal customers continue to do business with him and the earlier franchiser loses his customer base.

### Franchisee's view

A franchisee who gets the license to distribute the services of the franchiser also has some advantages and disadvantages. Of course, the basic advantage is that he gets a chance to build a business using an established brand name. This assures him of good returns, and the risk involved in starting and running a new business is minimized. The basic disadvantage is that he has to strictly follow the prescribed business mode. The advantages and disadvantages are discussed in detail below.

Advantages to a franchisee:

- **Established business processes:** The franchisee is largely benefited by obtaining proven and successful business processes, a brand name, service products, delivery processes, etc., from the franchiser. He is not under pressure to build the brand or promote the service offering.
- **Reduced risks:** A franchisee's risk in starting a business, investing in it, and designing and developing a successful service product is minimized with the help of franchising.

The disadvantages:

- **Reduced profits and revenues:** Often, franchisees find it difficult to retain their market share when the markets get overcrowded. As a result, his revenues and profits are negatively affected.
- **Strict adherence:** When a franchisee works for the franchising company, he should strictly adhere to the rules of the company and maintain the standards of quality, process, pricing etc., determined by the company. The franchisee has very little say in business decisions.
- **Encroachment:** Encroachment is the biggest disadvantage for a franchisee. When new franchisee outlets are opened in the same city or locality, the demand for the existing franchisee is reduced. The franchiser, however, does not compensate the existing franchisee for this loss of business. For example, if Barista franchises its operations to two franchisees in the same locality, then the customers will be distributed between the two, thus reducing the sales revenues of each outlet.

**Exhibit 13.3****Insurance Agents Turning Rich**

In India, examples of insurance agents earning millions as commissions are increasing in number. This success should largely be attributed to an insurance agent's power to persuade his customers to insure their life or a valuable asset by taking the company's policy. Further, there is a new business opportunity for insurance agents with companies insuring their employees' lives. For examples, there are companies, which have insured their CEOs for Rs1-2 crores.

The business of insurance is largely dependant on the 'faith' factor. An insurance agent should be able to make customers visualize how an insurance policy can help them and their dependents if some misfortune befalls them in future. Thus, insurance agents have to stress on the need to be insured. Further, an insurance agent needs to be honest with the insurer, show some empathy and have patience in selling his policies to the customers. Insurance agents who can make the best first impressions and build lasting relationships with their customers succeed more. There are instances where agents have had earnings of Rs. 20 lakh in the form of commissions.

*Adapted from Ananya Roy, "High Networth Network – Insurance have got rich – and how", Business Today, April 25 2004*

- Termination of the contracts: A franchiser can terminate the contract if the franchisee fails to generate profits. A franchisee, therefore, is under continuous pressure to maintain margins as he otherwise faces difficulty in paying the fee and royalties due to increased competition. Further, franchisees are of the view that the contracts are rigid and are beneficial to the franchisers.
- High Expectations: Sometimes, franchisees face problems because of the unrealistic promises made by the franchiser at the time of entering into the contract.

**Agents and Brokers**

Agents and brokers are forms of intermediaries who work on behalf of the principal or owner of the services. Further, an agent is a bridge between the customers and the service company and is enabled to make agreements between the customers and the service company. For example, agents of LIC (Life Insurance Corporation of India Ltd.), explain the various products offered by the company and make insurance policies between the customers and the company. These agents and brokers are given the legal authority to market the company's services on behalf of the principal. They are paid by the principal in the form of commissions, for their services. Exhibit 13.3 shows how insurance agents are earning high commissions by selling the policies successfully and by maintaining successful relationships with the customers. Although many functions performed by the agents and brokers are similar, some minute differences exist between them.

Agents are people or organizations that work for the principal on a continuous basis. Selling agents, facilitating agents, and purchasing agents are the three types of agents. Selling agents have the contractual authority to sell a principal's services, as the principal is either not qualified or lacks the resources to do so. Agents of sportspersons and film stars are examples of selling agents who do not have any limited boundaries. Facilitating agents are people who share their expertise in the marketing process. Purchasing agents on the other hand are equipped with knowledge in certain fields and provide valuable information to the clients regarding the best options available in the market.

Brokers are responsible for negotiations and smooth contract agreements between buyers and sellers. The party that seeks the assistance of brokers pays them and they are not put to any financial risk. Brokers do not represent the same buyers and sellers on a continuous basis. Examples of brokers include real estate brokers and security brokers.

### Advantages of hiring agents or brokers

Service companies have both advantages and disadvantages in hiring brokers or agents to distribute their services. The basic advantage is that the agents or brokers are not employed by the company and the company is, therefore, not bound to pay them on a regular basis. Their pay is, in fact, proportional to the business they generate. The disadvantage is that the agent or broker can distribute the services of competitors as well. Let us first discuss the benefits to service companies in detail:

- **Reduced costs:** A service company's selling and distribution costs are reduced by hiring the services of agents and brokers, who aid in smooth transactions between customers and service producers.
- **Special skills and knowledge:** The travel industry is the best example of agents and brokers. Tour packagers and travel agents are examples of intermediaries in the travel industry. All these intermediaries possess special skills and help the travel industry in different ways with their knowledge.
- **Large representation:** Service companies can hire as many service agents and brokers as required, as they need to be paid only the commission, which is based on their performance. This helps the service company enjoy a wider reach at no cost. The low service charge of agents and brokers helps a service company to hire many intermediaries on a geographical basis at low cost and to have wide representation.
- **Knowledge of local markets:** Agents and brokers have good knowledge of the local market, and help the service company by providing insights into the specific needs of their target market. Further, they also match the services of the company with the customers' needs. A company with a global presence is benefited by this kind of arrangement as they can customize their services to suit local needs.
- **Choice of the customers:** Some insurance or traveling agents and brokers provide information on the offerings of many service providers. Customers prefer to buy their services through agents as they save a lot of time and energy in having to compare the prices and offers of various service providers. For example, customers who want to buy or sell property, handle their dealings with the help of agents.

The challenges faced by service companies in using agents and brokers are as follows:

- **Reduced control on pricing and other marketing areas:** Agents and brokers, in contrast to franchisees, possess the power of negotiating the price of a service with the customers. Sometimes, the price agreed upon by the agents, as against the price of the original service provider, may degrade the perceived quality of the service in the customer's mind. Further, as different customers are charged different prices, there is a chance of their getting annoyed when they realize that they have paid a higher price than other customers. This can affect the business prospects of the service provider.
- **Promotion of various service providers-offers:** Often, agents sell the services of different service providers. These services could be similar in nature. For example, an agent selling the life insurance policy of Birla Sunlife can also sell the policy of ICICI Prudential. Similarly, a property broker has many assets available, when a customer desires to buy a property. This is a major disadvantage from the principal's view, as the agents provide customers with services from other suppliers if they match the customers' requirements better.

## **Electronic Channels**

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

- **Lower costs:** Electronic channels of distribution cost less to the service provider than personal selling. Further, they also provide instant answers to customer queries online. For example, if a customer decides to book flight tickets online, he will reduce the stress on the service provider and get the relevant information and tickets online.
- **Increased customer convenience:** Electronic channels of distribution have increased the convenience of customers. For example, online reservation of movie tickets saves the time of customers and the efforts involved in getting the tickets.
- **Increased bargaining power of the customer:** The customer can refer to the prices and services offered by different service providers online, compare them and make the purchase decision. This has increased the bargaining power of the customer.
- **Extensive distribution:** Electronic channels of distribution allow a company to contact many customers as well as intermediaries. Further, franchisers find that electronic communication with franchisees motivates the franchisees better, in addition to being cost effective.
- **Ability to customize services and gain quick feedback:** Electronic channels of distribution enable service companies to offer customized services to the customers. Further, the service providers can get feedback from customers faster than from other channels. They are also a cost efficient way of getting feedback.

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

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

Apart from these regular channels, there are also some conventional distribution channels in marketing services, like piggybacking. In this method of distribution, one marketer makes use of another marketer's channels to market his own services. For

## **Services Marketing**

example, Tata Indicom Internet, an ISP, uses the ATMs of ICICI Bank to distribute its product.

### **STRATEGIES FOR EFFECTIVE SERVICE DELIVERY THROUGH INTERMEDIARIES**

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

#### **Control Strategies**

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

##### **Measurement**

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

##### **Review**

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

#### **Empowerment Strategies**

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

##### **Enabling intermediaries to develop customer-oriented service processes**

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

##### **Providing required support systems**

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

##### **Motivating intermediaries to deliver consistent quality service**

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

### **Adopting cooperative management structure**

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

## **Partnering Strategies**

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

### **Alignment of goals**

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

### **Participation and cooperation**

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

## **SUMMARY**

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The fourth element of the marketing mix, namely, 'place', involves various efforts made by the service organizations to make the services accessible and available to the customers. Service location plays an important role in service delivery. Further, it conveys the service quality provided by the service provider, and stamps an image of the service company in the customer's mind. In case of direct distribution where service personnel are also involved in the service delivery, the behavior of service personnel towards customers also creates an image of the service provider in the customer's mind.

Service organizations aim to deliver services through direct distribution, where a service provider visits the customer or a customer visits a service provider. When service providers cannot deliver services through direct distribution, they opt for various forms of intermediaries. Franchisees, agents and brokers, and electronic channels are the main types of distribution channels of a service provider.

Franchising benefits the franchiser by providing him opportunities to expand the business at minimum cost, maintain consistent quality, and gain local knowledge and share financial risks. However, franchisers face some challenges in the form of having to strive to motivate their franchisees to deliver consistent quality, failing to maintain direct customer relationships, and having to manage conflicts with the franchisees. A

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franchisee on the other hand is benefited by gaining established business processes and a brand name, and by the minimizing of risks involved in starting an independent business. However, franchisees also face challenges in the form of reduced profits and revenues, strict adherence to the franchiser's rules and standards, encroachment by other franchisees, termination of contracts, and unrealistic expectations on the part of the franchiser.

Agents deal with the service principal on a continuous basis, unlike brokers. Selling agents, purchasing agents, and facilitating agents are the three types of agents. A service principal benefits by choosing these intermediaries, because of reduced costs, having access to the special skills and knowledge of agents and brokers, having a large representation, an enhanced knowledge of local markets, and being able to serve according to the choice of customers. The challenges include reduced control on pricing and in other marketing areas; and marketing of various service providers' offers by these agents and brokers.

Electronic channels of distribution have gained popularity in the recent years, with the advent of the Internet and World Wide Web. Lower costs, increased customer convenience, extensive distribution, and the ability to customize services that offer quick feedback, are the benefits of the electronic channels. The challenges include uncontrolled price competition, customer variability, and security challenges.

Service principals can effectively manage their intermediaries by adopting any of the control, empowerment, or partnering strategies. Control strategies include exerting control over intermediaries through measurement and review. Empowerment strategies include empowering intermediaries to develop customer-oriented service processes, providing them with the required support systems, training them to deliver quality service and changing to a cooperative management structure. Partnering strategies include alliance of goals, and participation and cooperation.



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## **Chapter 14**

# **People in Services**

**In this chapter we will discuss:**

- Classification of Service Personnel
- Problems Faced by Service Personnel
- Types of Conflict in Service Organizations
- People Strategies

*“Controlling men is like handling a piece of string. If you push it, it will go anywhere. If you lead it, you can make it go anywhere you want.”*

– Dwight D. Eisenhower (1890-1969), 34th President of the USA.

Like manufacturing organizations, service organizations are also trying to use technology to get their tasks done more effectively and efficiently. Tellers in banks are being replaced by ATMs, call center operators in service centers are being replaced by computers and many such jobs are being automated. However, service organizations have realized that they cannot completely replace people with machines. They do need people because machines can act and respond only in the way they are programmed and therefore cannot deal with exceptional situations. On the other hand, people can be trained to deal with difficult customers and exceptional situations. However, it is not very easy to attract and retain good people. People have their own set of expectations from the organization and from their jobs. They are also bogged down by their personal and social responsibilities apart from the responsibilities as an employee towards their organization. At work too, employees might face varied problems as they strive to achieve their personal and organizational goals. In this chapter, we will discuss the different types of service personnel, the problems they face, the types of conflicts that may arise at the work place and the way they are tackled. Then we will proceed to discuss the strategies used by service organizations to attract and retain employees.

### **CLASSIFICATION OF SERVICE PERSONNEL**

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

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

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

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

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

**Professional service employees:** They offer services that require higher-level skills and expertise. Professional service personnel need to have in-depth subject knowledge

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and strong technical skills coupled with good communication and interpersonal skills. Lawyers, doctors, engineers and consultants come under this category.

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

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

**Moderate contact personnel:** These personnel interact with customers only occasionally. Their primary function is to design and create a tangible or intangible product/service to suit customers' requirements. Therefore, they interact with customers only in special cases. For example, a chef in a restaurant does not usually interact with customers. However, when presenting a new dish for special guests, the chef may personally interact with the guests to explain the preparation, the ingredients and the nutritional value of the dish.

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

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

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

## PROBLEMS FACED BY SERVICE PERSONNEL

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

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

**No well defined job roles and responsibilities:** The job of service personnel is not and should not be defined strictly. Their roles and responsibilities are roughly outlined and not specified precisely because they cannot stop serving the customer saying that it is beyond their purview. For example, if a passenger in a flight falls sick during the course of the journey, it is the responsibility of the cabin crew to take care of him/her. An airhostess cannot say that her responsibility ends with serving them food and beverages and that taking care of the sick is not defined in her job responsibilities. Such situations put an additional burden on service personnel.

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

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

## **TYPES OF CONFLICT IN SERVICE ORGANIZATIONS**

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In a service organization, as service personnel interact with customers and sometimes need to deal with exceptional situations, conflicts are inevitable. These conflicts can be classified into individual-role conflict, customer-employee conflict, inter employee conflict, client-organization conflict and inter client conflict. They are discussed in detail here:

### **Individual-Role Conflict**

When the job requirements contradict the job incumbent's personality, role conflict arises. For example, say Mr. X is a shy person and does not like to interact with strangers. If he takes up a sales executive's job, he needs to talk to strangers, convince them about the service and persuade them to buy it. In such a situation, Mr. X would face a role conflict. The conflict might not be between the individual's personality and the job alone, but also between the values, beliefs and attitude of the individual and the job requirements.

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### **Customer-Employee Conflict**

In some rare cases, the service personnel may get into a conflict with customers. The reasons for such conflicts can be varied. Organizations set certain standards, rules and procedures for service delivery. If a customer demands that the service employees behave in a way that contradicts these rules and procedures, it may lead to a conflict. For example, if a customer smokes in a no smoking zone in a retail store and the floor manager asks him to stop, it might give rise to a conflict. The conflicts can also occur at a personal level due to individual differences. Either the customer or the service representative could be in a bad mood and this could spark off an argument for no reason.

### **Inter- Employee Conflict**

To deliver quality service to customers, service personnel need to work in a team and cooperate with each other. If service personnel fail to do so, it can lead to inter-personal conflict and affect the service quality too. For example, say there is friction between two members of the cabin crew on a flight because each feels that the other is lazy and does not respond to customer calls. Each might feel that his/her work burden is increasing because of that. This might lead to a conflict and if both stop responding to customers, the service quality would be affected. Similarly, a conflict on who has been working more night shifts or who is paid more for similar work or who is the manager's favorite may also lead to undesirable circumstances.

### **Client-Organization Conflict**

Sometimes, a client may enter into a conflict with the organization because of the organization's policies and procedures. For example, say a retail outlet specifies that a product purchased from it can be exchanged only if it is brought within a week. A customer may go to the shop after ten days and explain that the shop had been closed for four days during a festival and that technically, he had come within a week of purchase. If the retailer does not agree with the customer and refuses to allow the exchange, it may lead to a conflict. Some conflicts may arise when the client refuses to make the payment to the organization according to the agreement or makes no payment at all (Refer to Exhibit 14.1). Therefore, organizations should take care to formulate policies and procedures that are clear and comprehensive. They should think of all the possible exceptions that may arise and develop policies that accommodate them.

Organizations can also get into a conflict with clients over delayed or poor quality service delivery. For example, say an IT consultant promises to complete the implementation of an ERP package in a manufacturing firm in three months. However, the project gets delayed. The client accuses the consultant of delaying the implementation and the consultant in turn blames the organization for not cooperating with him and for making unrealistic demands.

### **Inter-Client Conflict**

Conflicts can also take place between the clients of an organization. For example, customers waiting in a queue at a reservation counter can get into a conflict if one tries to overtake others in the queue. Similarly, in a parking lot, if a customer hits the car of another customer, they can get into a conflict.

Such conflicts can also result in customer dissatisfaction, which will, in turn, lead to customer turnover. For example, if the customer at a discotheque gets into a fight with another customer, he might not want to go back to the same discotheque. Organizations should, therefore, make arrangements to ensure that clients do not get into conflicts.

**Exhibit 14.1****L&T's Conflict with Customers**

The Coimbatore Bypass was the first road project to be implemented in South India on a BOT (build, operate and transfer) basis. Larsen & Toubro (L&T) obtained the contract and agreed to a 28-km long two-lane bypass road, a 32.2 m new Athupalam bridge across the river Noyal, the railway overbridge at Chettipalayam and the maintenance of the old bridge at Athupalam, all in the state of Tamil Nadu. L&T was authorized to collect and retain the fee from users of the new and old Athupalam bridges.

The bypass was expected to ease the traffic congestion in Coimbatore city and on the Salem-Kochi national highway running between Tamil Nadu and Kerala. The shippers, mostly export oriented units relying on the Kochi port for shipments, were the other major beneficiaries as transportation time could be saved using the new road.

The Athupalam bridge was opened to traffic in December 1998 and the bypass became operative from January 19, 2000. The project cost was about Rs.1.04 bn. But L&T faced problems with the tolling of the old Athupalam bridge, which did not come within the route of the bypass. This bridge was an existing facility which was being used by incoming traffic from Kerala to Tamil Nadu. Transport operators had initially refused to pay the tolls. The bulk users of the bridge, including the state transport corporations of Tamil Nadu and Kerala also refused to pay.

The Tamilnadu state government backtracked and sought concessional tariff for state transport buses on the plea that the transport department was in the red. The Tamilnadu government was willing to pay only Rs.50 per bus for making more than three trips a day instead of the originally planned Rs.15 per bus per trip. L&T agreed to the subsidized toll rate on the condition that the state government compensated the revenue losses sustained by the company.

The Coimbatore District Bus Owners Association (CDBOA) and the Lorry Owners Association refused to pay even the subsidized tariff. The CDBOA took the issue to the Madras High Court against the tariff but the Court directed the private operators to pay the toll charges. However, they refused to comply with the court's orders.

Since December 1998, L&T had been unable to collect the tolls from road users and this resulted in a loss of Rs.74.1 mn as of June 2000. This included Rs.11.4 mn due from the Tamil Nadu government towards reimbursement of losses incurred out of the subsidized toll payment for the state transport buses.

N R Naramsimhan, GM (developmental projects)- L&T felt that unless the state government gave L&T powers to deal strictly with the non-payers, it would be impossible to recover the investment. He felt L&T might even request the state government to take over the project. L&T contemplated invoking the *force majeure* clause and pulling out of the project. L&T was also under tremendous pressure from the financial institutions, which had lent money, to create additional securities.

*Source: Venkat Raman and Sanjib Dutta, "The Coimbatore Bypass Road Project," ICMR*

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**PEOPLE STRATEGIES**


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

### Exhibit 14.2

#### Recruitment at Satyam

Satyam computer services recruits employees at both entry and lateral levels. Satyam enters into partnerships with reputed education institutions in India to recruit candidates from their campus. It selects candidates from premier engineering, management and computer science institutes. The selection tests generally include an aptitude test, group discussion and technical interview. Satyam evaluates the technical skills as well as the soft skills of candidates for selection. The selected candidates are then placed in different business units of Satyam. Each unit has a HR wing which takes care of induction and training of the new recruits.

In case of lateral level recruitment, the selection test involves only two levels of interview – one to assess the technical skills and another to test the candidate's fitment with the job and the company's culture. Candidates who have more than two years of experience are considered for lateral recruitment.

Satyam sends 30% of its candidates to work on overseas projects. It conducts an orientation program for employees before sending them overseas. The program includes education on the foreign country's language, culture and business manners, which help employees cope with the new culture easily, and succeed.

*Adapted from, 'Srinivas Rao, Dasari, "The way they do it at Satyam,"*  
<<http://www.expressitpeople.com/20040322/management3.shtml>>

### Attracting the Best Talent

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

The first step in attracting the best talent is to advertise in various media. The HR management should choose newspapers, magazines and websites or other modes carefully. For example, if the job demands specialized skills, it should be posted in appropriate magazines and websites, which are of interest to those professionals. For example, the advertisement for the post of a technical assistant in an IT firm should be advertised in an IT magazine like Dataquest. Similarly, a firm will get more applications for an interior designer's position, by posting the job on a website pertaining to interior designing. In addition, an organization should avoid blind advertisements because the prospective candidates would want to know the organization. Organizations that give blind ads may be regarded as small and underperforming organizations by some aspirants. Other sources of recruitment could be employment agencies, headhunters and educational institutions. (Refer to Exhibit 14.2 for Satyam's campus recruitment procedure). Employee referrals are also an important source of prospective employees.

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



## **Motivating**

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

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

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

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

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

## **Training**

Customers interact with the front-office service personnel before anyone else in the organization. Therefore, these service personnel are the representative faces of the organization. If they fail to deliver the desirable standard of service and do not satisfy the customer at this stage, the customer might decide to switch over to competitors in anticipation of better service. Therefore, organizations should take special care in training their service personnel to deliver the service and ensure customer satisfaction. Training enables organizations to impart the desired skills and abilities to new employees and prepare them for the job. Organizations also conduct training and development programs for existing employees to update their technical skills and improve their interpersonal skills. These programs can help employees take up greater responsibilities and reach their career objectives. Employees, therefore, believe that the organization takes care of them and their career needs (Refer to Exhibit 14.3).

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

### Exhibit 14.3

#### Infosys and Employee Training

Infosys has a special education and research group which is entrusted with the responsibility of education and training of employees. The group conducts intensive training ranging from eight to twelve weeks to software engineers recruited from colleges. The training program involves teaching general concepts as well as job specific skills. Apart from this, every year, employees undergo training for two weeks. Interested employees can also take training in general management skills apart from technical skills.

The project leaders too are allowed to take some time off to conduct training programs and workshops for employees. They demonstrate the best practices and new methods to employees who can adopt them and improve the quality of work.

The education and research group is staffed with masters and doctorates in computer science and management. The staff members work on various research projects to identify new and practicable ideas. After approval by the concerned authorities they are included in training programs. Infosys spends about 5% of its revenues on employee training and education. The major objectives of the training programs conducted by Infosys are to update software professionals with the latest technical skills, to impart managerial skills to them to handle complex projects, to educate them about new methodologies and tools in software development, and to promote among them commitment to deliver quality product to customers.

*Adapted from Appendix 2a: Infosys Technologies Limited,*  
<<http://www.atip.org/public/atip.reports.98/atip-98-050-app-02a.html>>

## Retaining

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

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

One of the best ways of retaining valuable human assets in the organization is by recognizing and rewarding performance. Employee performance should be measured periodically and the feedback given to them to enable them know their own strengths and weaknesses. They may also be guided to take the necessary steps to build on their strengths and overcome their weaknesses. Employees who have a successful career with an organization become role models for other employees of the organization and encourage them to stay with the organization to achieve similar success.

## SUMMARY

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Service personnel can be classified in different ways depending on the level and nature of interaction that they have with customers – low-contact and high contact service personnel; consumer-service and professional service employees; and contact

personnel, moderate contract personnel, back-office staff, support staff and management. Some of the problems faced by service personnel in the course of their job are stress and burnout, lack of clarity in their roles and responsibilities and lack of fixed breaks and intervals for relaxation. Service organizations and their employees may sometimes enter into conflict with customers during the course of interaction with them. The conflicts can be classified as follows — individual-role conflict, customer-employee conflict, inter-employee conflict, client-organization conflict and inter-client conflict. Some of the people strategies to be adopted by service organizations include attracting the best talent, training them in technical and people skills, motivating them through proper compensation, incentives and empowerment, and retaining them by improving the quality of work life and implementing an appropriate reward system.

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## **Chapter 15**

# **Process in Services**

**In this chapter we will discuss:**

- Characteristics of Service Process Design and Implementation
- Types of Processes
- Planning a Service Process
- Service Blueprinting
- Factors Influencing Process Efficiency
- Service Positioning through Structural Change
- Balancing Marketing and Operations

## Services Marketing

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

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

Companies, not only in the manufacturing sector, but in the service sector as well, gain competitive advantage over other players with improved processes. A well-designed and well-executed process increases operational efficiency, offers convenience to customers, reduces the cost of offering services, and improves the efficiency of service delivery. Effectively, it helps in achieving the goal of customer satisfaction.

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

### CHARACTERISTICS OF SERVICE PROCESS DESIGN AND IMPLEMENTATION

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- **Divergence:** Often, service providers adapt their services to match customer needs, as a single service might not cater to all. The degree, to which a service provider can vary services, deviating from the standard service, is known as divergence. Divergence provides an opportunity for the service provider to customize services for his customers, and serve them better. For example, many tourism companies customize their holiday packages according to customer needs.
- **Complexity:** The process of creating and delivering a service involves many activities. While some activities might be quite simple, others can be quite complex. The complexity of a process should take into consideration the contribution of the different activities to service quality. The activities that contribute to service quality in an interaction between a banker and a customer may include the friendliness shown by the banker, his knowledge about the products, the speed at which the service is offered to the customer, etc. At the same time, the number of activities in the production and delivery of a service increase with the increase in divergence i.e., complexity increases with divergence.
- **Service location:** The nature of the service being offered largely determines the service location. Services can be delivered at the service provider's location, at the customer's location, at a neutral location or virtually, depending on their nature. For example, customers can either visit a hotel to have dinner or they can order home delivery. In the former case, the service location is the hotel, and in the latter, the customer's home is the service location. A tourist operator offers his services at the tourist spot, which is a neutral location. A banker offers his

services virtually when he provides internet-banking facilities to customers. Therefore, service location depends on the alternatives available to the service provider and the customer.

- **Customer participation and interaction:** Service processes should be designed depending on the extent of interaction with the customer and his participation in service production and delivery. The level of customer interaction and participation differs from service to service. For example, the level of interaction between a banker and a customer is negligible in mobile banking transactions while the level of customer participation is high in deciding and ordering a menu for a wedding. It can also differ from channel to channel for the same service. The perceived quality of a service is enhanced if a customer has prior knowledge of the service process. For example, a customer who has an idea about the check-in process at an airport will be more comfortable and can appreciate the improvements made by the airline in the process, when compared to a customer who has no knowledge of the check-in process.
- **The service itself:** Services can be either process-based or technology-based. *Process-based services* involve many activities that a customer has to go through before obtaining the service. For example, a student aspiring to join an IIM (Indian Institute of Management) course or any other business institution has to fill up an application form, take the entrance test and appear for an interview, group discussion, etc. before gaining admission. Process-based services involve many people, with high levels of interaction between them. The service provider has an opportunity to improve the quality of service at every step and in each interaction. On the other hand, *equipment or technology-based services* require very little interpersonal communication between a service provider and his customer. For example, Internet banking, offered by many banks like ICICI, HDFC, GTB, etc. has almost eliminated the need for personal interaction between a service provider and his customer. Though technology-based services are efficient and convenient for customers, service providers lose an opportunity to enhance the quality of service through personal interaction. Further, any problem in the technological systems of the service provider affects the quality of service production and delivery too.

## TYPES OF PROCESS

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Process has been defined differently by various disciplines like computer programming, decision theory, operations management, etc., in addition to marketing. Though the terminology used differs, the basic idea or the core concept remains the same. According to all these disciplines, including marketing, a process should involve logical steps that can be broken down to increase efficiency. It should have an element of flexibility, which would help in achieving different results to produce the desired outputs. Exhibit 15.1 shows how the process of reserving a ticket against frequent flier miles has become simple over the years.

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

### Line or Flow Operations

In this type of process, the activities required to produce and deliver a service are arranged in a logical flow or assembly line (as it is called in manufacturing units). High coordination among personnel and speed of operation are necessary for the

### **Exhibit 15.1** **Simple Processes**

With increasing competition, all service companies have made efforts to increase convenience for their customers. Earlier, to book a ticket against frequent flier programs, a passenger was required to submit an application to the branch office. The employees at the branch office would process the application and get the ticket. The whole process would take upto 10-days and involved a lot of documentation, leading to inconvenience to customers and increasing the possibility of errors.

Later, the head offices integrated their databases with the branch offices, which made the process easier. The new process takes only 10 minutes and requires less documentation, leading to low costs and very little possibility of error.

Airlines have adopted new technologies, making processes simpler. Passengers can reserve their tickets online and get an electronic ticket to board the flight. They can even check-in using the telephone. Thus, companies have started to think from the customer's point of view, to make processes more convenient, simpler and easier to use.

*Adapted from, Amit Garg, "Play Aladdin not the genie", The Hindu Business Line, March 5, 2003.*

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

### **Job Shop Process**

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

## **PLANNING A SERVICE PROCESS**

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



### Exhibit 15.2

#### Intel's Intellectuals

*Intel inside* has come up with an idea to educate teachers across India and make them technology savvy. They launched 'Intel Teach to the Future' in February 2000. This program enables teachers to use technology in making education more interesting and easy to understand in the classrooms.

Intel first opted for a process to train the teachers of Kendriya Vidyalayas, Navodaya schools, and government schools across the country. The training is free. An Intel trained teacher is known as master trainer (MT). Intel has creatively adopted the process wherein each MT has to train 10 teachers, which increases the total number of technology-trained teachers. Thus, a batch of 20 teachers trained by Intel results in 200 technology savvy teachers. There were 25,000 MTs in India by March 2004.

*Adapted from, Sumathi K. Sampemane, "Intel inside....schools", Business India, May 10-23, 2004*

- **Technology:** A service provider needs to look into different aspects of the available technology and the extent to which it needs to be upgraded for delivering the desired services at the expected quality. For example, banks that are planning to introduce Internet banking should analyze the available technologies, and upgrade their systems to offer services through the Internet. Exhibit 15.2 gives the instance of a company imparting technological education to schoolteachers in India.
- **Conversion process:** A service provider is required to choose a method of converting inputs into the desired output from the pool of alternatives available. For example, a bank can communicate with its customers through direct mail, facsimile, telephone, courier, Internet, mobile phone, etc. The choice should be based on the organization's ability to bear the costs involved, customer preferences, the service quality level offered by each alternative, user-friendliness of each alternative and the speed at which it delivers the services.
- **Equipment:** A service provider should opt for equipment that is compatible with the other systems in the process. He should also analyze the extent to which it is useful in the process, compare its operating costs with the resultant benefits, assess the knowledge required by the operators to work with the equipment and finally, estimate its maintenance costs. This will help in choosing the right equipment for the process.
- **Flow of process:** Process flow determines the flow of work from one stage to another to produce the final output. It involves the logical arrangement of service personnel and equipment to perform the operations according to the process. For example, McDonalds has a well-laid process flow with service personnel operating the equipment to deliver the standard services on time. Generally, companies use flow charts to develop the process flow.
- **Service personnel:** Service personnel play an important role in production and delivery of services. In fact, they provide a competitive advantage to the service provider. A service provider should therefore be careful to hire the right people in terms of qualification and skills. He should then give them the right jobs to do, train and develop them continuously, and motivate them to deliver the best quality service.
- **Service location:** As services are intangible in nature, customers attach importance to the service location. They perceive it as an evidence of the quality of service offered. Therefore, service providers should choose a location that is easily accessible to customers, has a good infrastructure and the right atmosphere. For example, foreign banks and private banks in India today look entirely different from the old nationalized banks.

## Services Marketing

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

## SERVICE BLUEPRINTING

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

### Elements of Blueprinting

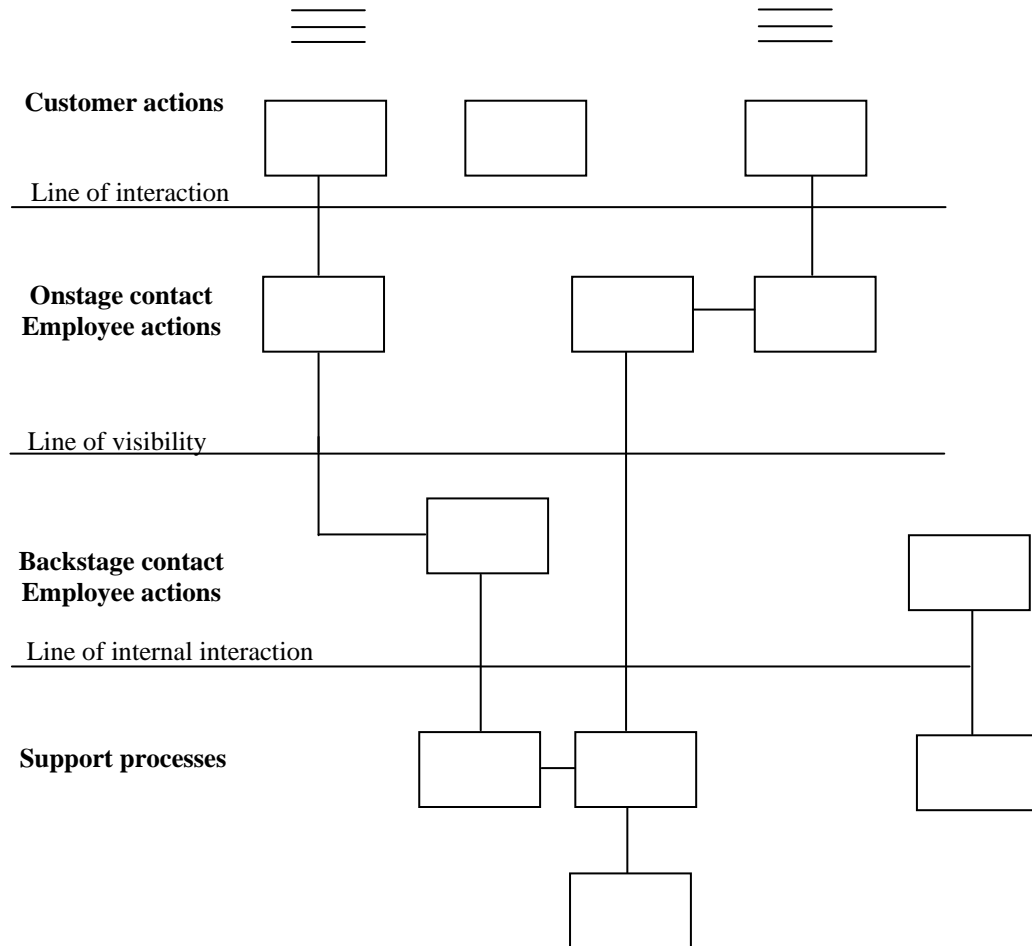
These elements are discussed by Zeithaml and Bitner in 'Services Marketing'<sup>1</sup>. The complexity of the service determines the type of symbols used and the number of lines in the blueprint. However, the rules in sketching the blueprint are not rigid. The following are the various elements of a blueprint:

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

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<sup>1</sup> Valarie A. Zeithaml, Mary Jo Bitner, "Services Marketing", Tata McGraw-Hill Edition, 2003

**Figure 15.1: Components of Service Blueprint**



### Reading a Service Blueprint

Some standards have to be followed in preparing a service blueprint so that there is consistency in developing and reading it. If no standards are followed, it might be difficult for an organization to understand a blueprint prepared a few months/years earlier. The various elements discussed in the above section are separated in a service blueprint by three horizontal lines (Refer Figure 15.1). This notation helps in understanding a blueprint.

- *Line of interaction:* The first horizontal line shows the points of interaction between the service personnel and the customer. If a vertical line passes through a horizontal line, it shows that a direct contact between a customer and service provider has taken place.
- *Line of visibility:* The second horizontal line, line of visibility, divides the service processes that are visible to the customer from those that take place backstage. This line divides the onstage and backstage employee actions.
- *Line of internal interaction:* The third horizontal line is the line of internal interaction, which divides the internal processes that assist the service personnel in producing and delivering the service. When a vertical line passes through a horizontal line, it represents an internal service encounter.

### **Developing a Service Blueprint**

Developing a service blueprint is not an easy task and needs utmost attention. As the blueprint helps in analyzing the service process, in identifying areas of improvement and improving the service delivery, it has to be developed taking into consideration all the minute details and implicit conditions. The following steps are involved in building a service blueprint:

#### **Identifying processes**

This step involves identifying the various processes involved in producing and delivering a service. Identifying and analyzing minute details will help in gaining knowledge of all the components needed, which in turn helps to analyze the process in case of any deviations, and to control and improve the process. For example, if an error has been noticed in the software application that a consultant has to deliver to the client, the consultant can trace the problem to its source easily and fix it immediately if he has a service blueprint.

#### **Identification of the customer segment**

Identifying the various customer segments helps to recognize the needs of each segment. Therefore, it will be possible to draw up a blueprint according to the needs of these segments. For example, a retired person visiting a bank will have needs different from those of employed customers. The bank can identify these needs and redesign its service process to improve it.

#### **Mapping the customer's view**

The activities performed by a service customer in selecting, purchasing, consuming, and evaluating the service should be identified and included in the blueprint. By doing so, a service provider will be able to understand which activities add value to the customer and he can concentrate on improving those activities to enhance customer satisfaction. By this means, service personnel also understand what the customer actually needs and prefers in the service delivery process.

#### **Mapping the onstage and backstage employee actions**

The line of visibility and line of interaction in a blueprint will help a service provider define the roles of onstage and backstage employees. Mapping onstage and backstage employee actions will help the service provider identify the processes to be performed by the onstage and backstage employees and the coordination required between them to improve the service. This also helps in identifying the training needs of the employees.

#### **Identification of support activities**

The line of internal interaction determines the role of support activities in delivering the service. This eventually determines how the support activities have an effect on the customers. Therefore, it is very important to identify the role of support activities. For example, the role of an interior decorator who replaces the flowers in vases every alternate day in a hotel is important in delivering quality service.

#### **Adding physical evidence wherever possible in the service process**

This helps in identifying what a customer considers as physical evidence in each step of the process. For example, a doctor might not realize that the patients visiting a clinic consider a well-lit name board with the doctor's name and qualification as physical evidence. Once he gets to know this by using the service blueprint, the doctor can arrange for such a board and attract more patients.

## **FACTORS INFLUENCING PROCESS EFFICIENCY**

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An efficient process leads to quality service delivery and customer satisfaction, as has been discussed in the beginning of the chapter. However, how does the service provider design an efficient process and execute it? There are various factors or elements that affect the effectiveness and efficiency of a process. These factors are discussed below.

### **Planning**

Planning is the first stage in developing a service process and determines its effectiveness. Planning a service process should include various aspects like customer preferences, technological requirements, location and appearance of the service location, quality of service personnel, financial inputs etc. Each of these should be analyzed and compared with the capability of the service provider before planning the process. For example, if an hotelier plans to include a complimentary massage in the process of serving his customers, he first needs to know how many customers would be actually interested in it. Then, he can plan the other factors involved.

### **Service Personnel**

Service personnel play a very important role in producing and delivering quality services. They add value to the service process with their knowledge, efficiency and cordial behavior. Further, service personnel are the people who can enhance the image of the organization in the minds of the customers. Therefore, service companies should give freedom and training to their employees to innovate and practice ways to satisfy their customers. For example, Ritz Carlton is well known for its customer service, which it achieves through excellent training, employee empowerment, and reward structures.

### **Technology**

Technology has completely transformed the way services are delivered to customers. Technological developments are especially evident in service industries like banking, hospitality, healthcare, financial services, travel, etc. These improvements add to the customers' convenience while using the service, and enhance the overall efficiency of the service processes. Internet banking, online reservation facilities, online status enquiries, ATM machines, video conferencing, etc. are a few examples of technological innovations in service industries. Further, technology has also helped in achieving unimaginable standards and results in the field of medical services. A service provider should continuously try to upgrade technology to match the latest standards and provide better services to his customers.

### **Location and Decor**

As we have discussed in the earlier chapter "Place in Services", the location of a service outlet plays an important role in creating an image of the organization in the customers' minds and in providing tangible evidence to them. In recent years, the interior decor of a service outlet has also gained great importance. These changes can be seen in the posh and sleek interiors of many national, private, and international banks, hotels, hospitals, etc. Due to distinct characteristics of services (like tangibility, perishability, and variability), service providers have limited opportunities to attract and retain customers and set their services apart from competitors' services. However, marketers have found that a customer's opinion of a service can be changed by altering the messages received by his sensory stimuli (sight, sound, touch, and smell). Therefore, service providers should change the interiors of the service organization to attract and please customers.

## **Services Marketing**

### **Customer's Role**

Customers derive greater satisfaction from a service when they play a bigger role in creating and producing the service. A customer's knowledge about the service also determines his expectations of the service. For example, a customer who is a frequent flier would estimate the service of an airline better, than a customer who has boarded a flight for the first time. If the actual service delivered does not meet his expectations, then the customer is dissatisfied. Therefore, service providers should clearly lay down the processes based on the level of customer participation in the service creation and delivery. For example, a customer's involvement in choosing an insurance policy, determining the premium and the frequency of payment (half-yearly or annual) etc. depend on the level of his knowledge about the service. A customer who has no knowledge of insurance business and is only interested in an insurance or investment option might leave all the decisions to the service provider.

## **SERVICE POSITIONING THROUGH STRUCTURAL CHANGE**

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As we have studied in the beginning of the chapter, processes are characterized by their complexity and divergence. Complexity involves the number of activities in a service process whereas divergence determines the extent to which the delivery process deviates from the standards. A service provider can change his service positioning by altering the existing structure of the service process. There are four ways to alter the structure- to either increase or decrease the complexity, and to increase or decrease divergence. Let us now discuss these four strategies.

### **Reduced Complexity**

This strategy aims at specialization in certain service processes rather than concentrating on a wide range of services. Reduced complexity is to decrease or cut down the number of functions or activities involved in a service process. This action enables a service provider to focus on a few service offerings, which in turn allows him to reduce costs, distribute and control the service easily. The service provider can also be positioned as a 'specialist'. However, a disadvantage of reduced complexity is the limited alternatives it offers and the high price of service due to specialization. Customers may switch on to competitors, as it is convenient for them to choose from a wide range of services.

### **Increased Complexity**

This strategy aims to penetrate the market either by offering new services or by adding more value to the existing services. This increases the complexity of the service process. For example, when a bank or a mutual fund company starts offering portfolio management services, it can be termed as increased complexity. The efficiency in offering services is increased as the revenues generated per customer are increased. However, customers will be confused if the services become too complex.

### **Reduced Divergence**

This strategy aims to reduce costs and increase productivity. Reduced divergence also makes distribution of services easier for the service provider. The advantages of this strategy include providing quality service consistently and improving accessibility to the services. On the other hand, the disadvantages include inflexibility in operations, leading to reduced customization. As a result, customers might prefer competitors offering customized services, even if they have to pay a higher price.

**Exhibit 15.3**

**JIT in Services**

Just in time (JIT) is a Japanese concept that has been widely used in the manufacturing sector. However, due to similarities in the basic manufacturing and service industries, the concept can be extended to the service sector too. The concept involves activities or steps that are organized in order to achieve improved quality and lower costs. It aims to deliver the inputs required for the next step just in time, so that the inputs will not be idle, and costs of warehousing are reduced.

Successful implementation of the JIT philosophy requires that the service personnel be trained to identify defects in service processes and increase the process efficiency. Adopting innovative technologies alone is not sufficient to improve processes and service delivery if the service customers do not know how to use the technology for their convenience. Therefore, customers also should be educated on using the new technologies for their convenience.

Another important aspect is the layout of the service outlet. It should be well laid out to minimize the time involved in delivering the service.

Standardizing processes wherever possible will help a service provider to reduce the time and costs involved in creating and delivering a service. However, flexibility of the processes would help in serving customers with varying needs.

Service companies like hospitals, education facilities, communication services, advertising firms and transportation services can adopt JIT to successfully manage their processes with low costs, and improve the quality of their services.

*Adapted from Cem Canel, Drew Rosen and Elizabeth A. Anderson; "Just-in-time is not just for manufacturing: a service perspective," Industrial Management and Data Systems, 2000.*

**Increased Divergence**

This strategy increases flexibility in operations and customization of services. This enables a service provider to charge premium prices from customers and earn bigger margins. The service provider can tap a niche market by increasing divergence, and create a loyal customer base. However, on the negative front, service providers may face difficulties in controlling, managing and distributing services and the customers may not be willing to pay extra price for customization.

A service provider's job does not end with choosing a desired position in the market by altering the divergence and complexity of the service processes. He should continuously monitor and balance the marketing and operations functions to maintain the position. Operations and marketing are equally important in any industry. Though marketing is viewed as a more glamorous area, operations management assumes greater importance in service industry as the processes involve high customer contact and interaction. Exhibit 15.3 introduces the concept 'just in time' for better balancing of operations in services.

**SUMMARY**

Process is an important element of the marketing mix that determines how a service should be created and delivered to the customer.

The characteristics of service process include complexity, divergence, service location, customer participation and the service itself –whether it is technology based or process based. The types of process include line or flow operations and job shop process. The planning of a service process includes different elements like the

## Services Marketing

conversion process, the equipment required, flow of process, quality of service personnel, service location, layout design and the organizational structure. Further, we discussed an important aspect of service process called the service blueprint that maps all the processes and elements involved in service creation and delivery including the service personnel and customers.

The elements of service blueprint include customer actions, onstage and backstage employee actions, and support processes to their minutest detail. Further, the interaction among these elements is explained through the line of interaction, line of visibility and line of internal interaction. These will help a service provider to clearly read a blueprint and identify the activities that add value to the customer so that he can concentrate on such activities.

Developing a service blueprint involves identification of the service, identification of the customer segments, mapping the service processes according to the customer's point of view, mapping the onstage and backstage employee actions, the identification of internal support processes, and finally the physical evidence involved in service delivery. The factors that affect the efficiency of a process include planning, service personnel, technology, location, décor, and the customer's role. Further, a service positioning can be changed by structural changes by reducing or increasing divergence, or by reducing or increasing complexity of services.

Finally, a service provider is required to know how to balance marketing and operation functions in a service organization for greater success, as both functions are equally important.



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## **Chapter 16**

# **Physical Evidence**

**In this chapter we will discuss:**

- Elements of Physical Evidence
- Types of Physical Evidence
- Significance of Physical Evidence

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

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

### ELEMENTS OF PHYSICAL EVIDENCE

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

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

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

Let us discuss these elements:

#### Physical Environment

The physical environment plays a very important role in customer satisfaction because it is perhaps the first tangible element that the customer comes into contact with, when he or she approaches a service provider. Research studies have shown that the overall service experience of a customer is determined not only by functional attributes but also by physical surroundings in the service location. Physical surroundings influence a customer's decision to revisit the service outlet, to a considerable extent. Refer to Exhibit 16.1 to examine how the well-known bookstore, Crossword, enhances customer experience by using physical features. First, let us define physical environment. Usually, the following aspects will be included:

- Layout
- Atmosphere
- Aesthetics

### Exhibit 16.1

#### Physical Evidence at Crossword

Crossword is one of the most well-known retail bookstores in the country. It has around 40,000 titles at any given point of time. Its monthly newsletter is mailed to over 17,000 customers. Crossword organizes customer experience-enhancing promotions and interactive sessions with authors like Arundhati Roy. Let us see how the store offers “physical evidence” to its customers.

The store conducts activities, like “pictionary” contests and an annual fair with Santa Claus, aimed at making the place reader-friendly. One can grab a coffee, browse through books and music, all in an air-conditioned environment, with soothing music playing in the background. The store does not believe in aggressive marketing, but by offering promotions targeted at loyal customers, creating more value for the customer's time, increasing significantly the store's offerings, providing areas to sit and browse, little baskets and trolleys to hold books they provide value-added services.

For the store, customer preferences and comfort are the first priority. A lot depends on details like how books are placed to suit customer the needs. This reduces the brush aspect significantly. It irritates customers when spaces are crowded and someone constantly brushes against them. Another interesting aspect is ‘adjacencies’. For instance, travel books are placed next to management books, as many businesspersons are frequent travelers.

At Crossword, the marketing team has a clear program — coming up with a certain number of events at every store every year. Bringing up something new constantly also encourages customers to frequent the store more and even take part in activities. Children and children's books are an important part of the store make-up. In fact, new management recruits per force have to conduct a survey or begin their career at Crossword by doing studies or promotions. They watch and interpret customer needs, studying demographic and other data collected from members of the Book Rewards Program. This helps them serve customers better. This case study helps us understand how Crossword uses physical evidence to enhance the service experience of its customers.

Source: “Experiential Retailing,” March 14, 2004, <http://www.indiainfoline.com/bisc/exri.html>

#### Layout

Layout refers to the design of the service outlet. A services outlet should be spacious and provide comfortable seats in case customers need to wait awhile to be attended on. Reception areas in most service locations have sofa sets and chairs to accommodate waiting customers. Seating arrangement should be convenient, so that a person can come out of his seat or go to it without disturbing others. Service providers should ensure that their outlet is not overcrowded, because this is one thing that customers dislike. Before building an outlet, the service provider should estimate the traffic and accordingly lease or construct the space. If a service outlet offers multiple services, there should be signboards pointing the way to different service counters. For example, a financial services company may have an investment advisor on the first floor, bonds section on the second floor and loans on the third. At the entrance, the company should put up a board indicating the services available on different floors. For staff, their designation should be clearly stated on a nameplate kept in front of his or her desk, or mark it out in the form of an identity card worn on the person. This will make it easy for a customer to contact the employee he is seeking.

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

### Atmosphere

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

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

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

### Aesthetics

A customers' decision to revisit a service outlet largely depends on its ambience. For example, some palaces in India, which have been converted into hotels, appeal to customers who delight in aesthetics. The quality of the flooring, the carpets, the material used in the furniture, the curtains, the designs on the ceiling, the paintings, the artifacts displayed, the glittering chandeliers, all these contribute to the experience. This is in addition to more basic aspects like employee uniform or smoothly finished walls. In hotels, the quality of the table linen and table ware also form part of aesthetics. Customers, who visit a service outlet for the first time, look out for these aesthetic aspects and form an opinion of the quality of service provided by the service personnel. To reiterate, service providers need to take care of aesthetics in their service outlets to impress first time customers as well as encourage customers to visit their outlet again (Refer to Exhibit 16.2).

### Communication

Let us move to the next aspect, communication. In big shopping malls and multiplexes, customers need to be guided to locate the items they want to purchase. Either an employee should be available at the entrance to provide the guidance, or signboards should be placed so that customers can help themselves. These boards should be located inside the service outlet as well as outside. At the entrance or outside the mall, customers should be directed to the parking space. Customers do not like to waste their time searching for a parking lot or asking people for help. If that is the case, they may just move on to another familiar store. Valet parking is a good value addition.

### Exhibit 16. 2

#### Hotels and Aesthetics

In India, there are different types of hotels catering to different customer needs and purposes. Hotel categories include airport hotels, beach resorts, bed and breakfast hotels, business hotels, heritage hotels, honeymoon hotels, seaside hotels, health resorts and star hotels. The aesthetics and amenities offered by each category will vary.

The Radisson hotel in New Delhi is an airport hotel, situated close to the airport. It is an international hotel and has stylish and modern architecture. Built with red bricks, the beautiful building is landscaped picturesquely. Radisson has 27 suites that offer the most comfortable and modern amenities and a presidential suite for special guests. The rooms are spacious and furnished with luxurious beds and sofas; silk and linen covers and curtains in attractive color combinations and designs. In each guest room, there is a tea/coffee maker, hair dryer and a mini bar. A bottle of mineral water and fruit basket is provided in the room daily. Radisson has a special team called "Yes, I can", the members of which are ready to do virtually anything the customer asks for. This is a unique service that differentiates Radisson from the rest.

Holiday Inn Resort, Goa, a beach resort hotel, is located at the beautiful Mobor Beach in South Goa. It has traditional architecture that gives the hotel a grand and majestic appearance. Though the hotel is targeted mainly at tourists coming to Goa for a holiday, it also offers suitable facilities for business people. Its conference hall accommodates 200 people and has facilities like microphones, overhead projector screen, VCR, TV and Slide Projector.

Mumbai is known as the commercial capital of India. The Oberoi Hotel in Mumbai is located at the centre of the city and offers a beautiful view of the Arabian Sea. It has 337 rooms that are centrally air-conditioned and have facilities like fax machine, voice mail, color TV, Internet, mini-bar and hair dryer. It has a tastefully designed Mediterranean restaurant with a display kitchen. It has banquet halls offering the most modern facilities and a recreation and health centre.

From these examples, it can be observed that hotels in India concentrate on both aesthetics and utilitarian functions to suit their businesses.

*Adapted from " <http://www.hotelsresortsindia.com/>*

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

#### Price

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

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

### Service personnel

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

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

### Tangible products accompanying service

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

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

### Brand/corporate identity

The brand adds tangibility to pure service. For instance, a person is more confident about handing over car for repair to a company-owned service centre (like Maruti,

## **Services Marketing**

Hyundai or Indica.) than to a mechanic working by himself. The mechanic may be fully capable of servicing the car well but the brand value, which he lacks, makes the customer prefer a car company's services. Corporate organizations set specific standards, offer consistent quality of service and spend a considerable amount of money on building a brand and creating awareness among the people about it. Therefore, people can recall the brand and its associated benefits. As service is something that they cannot judge before using it, they look for an assurance of quality service. A brand offers them just that. Let us look at another example. When a corporate manager wants to conduct a meeting with his executives outside the organization, he looks for a good branded hotel that can provide the space and the amenities for the meeting. For example, the Taj, Mumbai is one of the best business hotels serving business travelers in India.

### **TYPES OF PHYSICAL EVIDENCE**

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

#### **Essential Evidence**

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

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

#### **Peripheral Evidence**

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

### **SIGNIFICANCE OF PHYSICAL EVIDENCE**

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Physical evidence has great significance in marketing services, owing to their essential intangibility. By providing physical evidence to customers and adding tangibility to their services, service providers can derive many benefits. Exhibit 16.3 explains how Kerala used its techno park to attract IT companies to the state.



### Exhibit 16.3

#### How Kerala is Attracting IT companies

Kerala, to compete with its neighboring states, Karnataka, Andhra Pradesh and Tamilnadu, in attracting IT companies to set-up their bases in the state, built a Technopark in 2002 in the state capital, Thiruvananthapuram. This is the largest software park in India. It is hoped that the magnificent building will attract some big IT players to set up their offices in the state. The magnificent 4,80,000 sq. ft., 6- floor, centrally air-conditioned building, named “Bhavani”, is specifically designed to meet global IT & ITES industry standards. Inaugurating the building, Mr. Pramod Mahajan, then Minister of Information and Technology, said, “Kerala is definitely in the right direction to become a leading player in IT.”

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

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

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

Source: “Kerala Technopark on World IT Map,” August 19, 2002, <http://www.indiaonline.com/cyva/feat/ker.html>

Some benefits of offering physical evidence are discussed below:

- Increased productivity
- Creating good impressions
- Increased credibility
- Differentiation from competitors
- Service quality management
- Repositioning service

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

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

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

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

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

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

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

## SUMMARY

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Customers in the service sector attempt to take cues about the service provider's capabilities and the quality of service offered from physical evidence. The major elements of physical evidence include the physical environment, the modes and content of communication, service personnel, the tangible elements accompanying the service and the brand. The layout of the service center, atmosphere and aesthetics constitute physical environment. A well-designed layout, maintenance of appropriate lighting, music and visuals, pleasant and attractive ambiance of the outlet ensure that

## **Physical Evidence**

customers enjoy their service encounter. Placing signboards where needed and displaying the chart of service charges helps customers serve themselves and improves their experience. Service providers should price their services right (neither too high nor too low) to attract customers. Some service providers offer tangibles like books or gifts to improve their relationship with customers. Service providers also need to invest on building the corporate brand, which conveys their image. Brand is another tangible considered by customers before purchasing a service. Physical evidence can be categorized into two types – peripheral and essential. Essential physical evidence is provided by those tangibles, without which the service cannot be delivered. Peripheral evidence is provided by those tangibles given out by service providers as gifts. The important benefits offered by physical evidence are increased employee productivity, creation of good impression among customers, increased credibility of the service provider, and differentiation from competitors, effective management of service quality and repositioning of services.

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## **Part V**

# **Maximizing Services Marketing Potential**

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## **Chapter 17**

# **Relationship Marketing**

**In this chapter we will discuss:**

- Relationship Marketing Defined
- Benefits of Relationship Marketing
- Relationship Marketing and Transactional Marketing
- Six Markets Model
- Strategy in Relationship Marketing
- Retention Strategies
- Recovery of Customers
- Communication and Relationship Marketing

## Services Marketing

*"You cannot shake hands with a clenched fist."*

- Golda Meir, former prime minister of Israel

During the 1990's, relationship marketing became a topic of discussion in the academic world and the corporate world as well. Traditionally, organizations laid the emphasis on marketing activities that aimed at attracting new customers. However, with it being proved that attracting new customers is a costly proposition for any organization, when compared to retaining existing customers, the focus has shifted. Relationship marketing, thus, advocates retention of existing customers. According to Pareto's law, 20% of the customers generate 80% of the revenues of an organization. If an organization applied relationship marketing to these 20% customers, it could prevent them from switching over to competitors and thus maintain its profitability. Relationship marketing involves interacting with customers, collecting information from them, compiling it to form a meaningful customer database and leveraging on it to offer personalized services to them. Leading companies worldwide are practising relationship marketing to enhance customer satisfaction and increase their profitability. In this chapter, we will discuss the benefits of relationship marketing, differences between relationship marketing and transactional marketing, the six markets model, relationship strategies, service recovery and the importance of communication in customer relationship management.

### RELATIONSHIP MARKETING DEFINED

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Different authors have defined relationship marketing in different ways. Some of these definitions are:

According to Berry and Parasuraman, "Relationship marketing is attracting, maintaining and – in multi-service organizations – enhancing customer relationships.<sup>1</sup>"

According to Shani, D. and Chalasani, S., relationship marketing is "an integrated and coordinated effort to identify, maintain, and build up a network with individual consumers and employees, and continuously strengthen the network for the mutual benefits of both sides, through interactive, individualized and value-added contacts continuously and over a long period of time<sup>2</sup>"

Christian Gronroos gives the definition – "(The purpose of) ... relationship marketing is to identify and establish, maintain and enhance, and when necessary terminate relationships with customers (and other parties) so that the objectives regarding economic and other variables of all parties are met. This is achieved through a mutual exchange and fulfillment of promises.<sup>3</sup>"

### BENEFITS OF RELATIONSHIP MARKETING

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Long-term relationships are beneficial for both customers and organizations. Organizations, as already discussed, benefit from lowered costs and increased profitability. The other advantage for them is that they already know the requirements and expectations of their customer base and, therefore, can serve them better. The customers enjoy the services of an organization that understands them and their requirements. Another advantage for them is that they have a reliable service provider. Let us observe some of these advantages in detail:

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<sup>1</sup> Berry, L.L. and Parasuraman, A., *Marketing Services*, New York: The Free Press, 1991.

<sup>2</sup> Shani, D. and Chalasani, S., "Exploiting niches using relationship marketing," *The Journal of Consumer Marketing*, 1992, Vol. 9, No. 3.

<sup>3</sup> Christian Gronroos, *Service Management and Marketing*, 2<sup>nd</sup> edition, US: John Wiley & Sons, 2001.



### Benefits for the Firm

If a firm maintains good relations with its customers, the customers will continue to avail of its services without being detracted by competitors. Research has found that people tend to increase the amount of money they spend on services with each visit they make to a service provider. So, the organization will benefit from increased revenues from its existing customers.

Organizations can also cut down costs involved in attracting new customers. To attract new customers, they have to spend heavily on advertisements, promotional campaigns and discount offers. But they can derive more benefits merely by maintaining a good relationship with existing customers. Existing customers will become repeat customers and even provide free word-of-mouth publicity, which will bring in more customers and additional revenues.

To offer personalized services, the service provider has to take some time to understand the customers and get to know their tastes and preferences. The new customer, on his part, is hesitant about depending on a new service provider for all his requirements and takes time to assess the quality of service offered. Also, new customers may have some doubts about the terms and conditions of the services. So, there is a significant time gap before the service provider and a new customer begin to trust each other and enter into a relationship. Effectively, the service provider has to put in considerable time, effort and resources to win the confidence of a new customer and build up a relationship with him. However, once the service provider successfully establishes and strengthens the relationship, it becomes quite easy to retain customers.

When an organization emphasizes relationship management along with the quality of services, there could be only stray cases of customers switching to competitors. The word-of-mouth publicity by existing customers also brings in new customers. Therefore, there is less pressure on the employees of organizations to attract new customers. Employees are expected only to maintain and continuously improve relations with existing customers and retain them. Because of the limited work pressure, employee turnover is also lower in these organizations. Therefore, the organization saves a lot in terms of the costs of recruitment and training of employees.

### Benefits to Customers

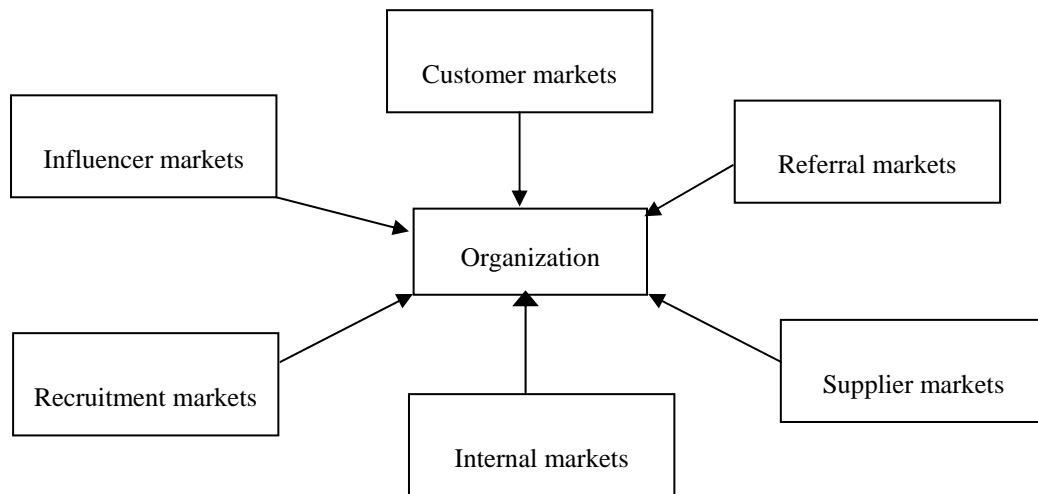
By maintaining a consistent relationship with a service organization and opting for its services repeatedly, the customer can save on time as well as the effort required to choose a new service provider and then test its service capabilities. Customers can make better and more effective use of the time involved in this process. Also, because the service provider already knows the customer requirements, the latter enjoys highly personalized services and sometimes even special services. For example, a recruitment agency gives priority to long-time customers when there is a shortage of talented resources in the market. A beautician may let her regular customer walk into her room and consult her, without making her wait at the reception for long.

## **RELATIONSHIP MARKETING AND TRANSACTIONAL MARKETING**

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The method of marketing in which a service organization or its employees communicate with the customer only when he approaches it for service is called transaction marketing. In this kind of marketing, a service representative of the organization provides only the service sought by the customer. He does not make any effort to get to know whether the customer is satisfied with the service, whether he needs some other service, or would like to come back again for the service. He is not interested in gaining the loyalty of the customer.

**Figure 17. 1: Six Markets Model of Relationship Marketing**



Source: [http://nikkichapman.onlyfreehosting.com/cgi-bin/i/images/six\\_markets.jpg](http://nikkichapman.onlyfreehosting.com/cgi-bin/i/images/six_markets.jpg)

Organizations which adopt the transactional style of marketing can be said to be lacking foresight. Their employees attempt to sell their service considering it to be a one time process. Even though they may offer quality service, the fact that the personal touch and focus on the customer is lacking affects the organizations and they often end up losing their customers. For example, most people would like a bank which understands their personal needs and suggests suitable investment options. They would prefer it to a bank which provides excellent service, but treats them as just one of its many customers.

When a service organization seeks to establish and maintain a long-term relationship with its customers, it is known as relationship marketing. The employees of the organization communicate with customers not just during the service transaction, but beyond that as well. Because of constant contact with the customer, the employees get to know the customer better, and having understood his expectations, offer improved service when he comes to them for repeated service. This continuous improvisation of service delivery develops and strengthens relations between the customers and the organization and eventually results in customer retention.

While the employees of organizations that adopt transaction marketing fulfill only the basic requirements of the service, the employees of organizations which emphasize relationship marketing go out of their way to satisfy their customers. For example, let us say a customer visits supermarket ABC for a particular product. The sales executive at ABC tells him that the product is out of stock. The customer visits XYZ, but the product is not available there either. However, the sales executive at XYZ says that he can arrange to get the product if the customer can wait for a few minutes. He arranges for the product to be sent from the godown immediately and offers it to the customer. The customer would obviously be satisfied with XYZ and would prefer it to ABC, the next time he needs to visit a supermarket.

### **SIX MARKETS MODEL**

A service organization needs to maintain good relations not only with its customers, but a host of other members in the network. The organization has to maintain a relationship with its employees, the different channel members, recruiters, and agencies which influence customers' decisions (Refer Figure 17.1). They are categorized into six markets and are discussed in the following section:

### Customer Markets

The end-customers of the product or service offered by an organization constitute the customer market of that organization. Modern organizations realize that they should make a lot of effort to retain existing customers apart from attracting new ones. This will help organizations gain higher returns on the investment made in attracting the customers.

Once an organization has identified a prospective customer, employees who interact with him, like the front-office executives, should clearly explain to him what types of services they offer and the people he would need to contact for further queries or help. When a prospect contacts an employee of the firm and requests a service, he becomes a customer of the firm. The employees and managers should work as a team and make the service experience a pleasant and satisfactory one for the customer. It is the responsibility of the management to remove any bottlenecks that may exist in the delivery process and ensure that there are no delays in the service process. A satisfied customer will come back to the organization to use its services and becomes a repeat customer. At this point, the employees have to render special attention and high quality service to the customer every time he visits the organization. The repeat customer eventually becomes the client. A client may ignore rare shortcomings in the service offered to him since he had experienced high quality service several times in the past. But if the mistakes persist, the customer may become dissatisfied and switch to a competitor any time. Therefore, organizations should continually obtain feedback from the customer and attempt to know their level of satisfaction from time to time. They should request the customers to point out any shortfalls and take their suggestions on improving the quality of service. Organizations should act upon customer complaints and suggestions and update the customers on the steps being taken. When the client visits the organization the next time, he should be able to experience flawless service. In fact, the service experience should go beyond the client's expectations and delight him. The delighted client will then become an advocate of the services of the organization. He will actively recommend the service to his friends, relatives and acquaintances, and act as a free promotion medium for the organization.

As has been seen, retaining customers is as difficult a process as attracting new customers in terms of efforts, though the cost involved is higher for the latter process. In the long run, customer retention proves to be an inexpensive and highly effective method for increasing and maintaining the size of the customer base, when compared to the process of attracting new customers.

### Internal Markets

Employees are the internal customers of an organization and constitute its internal market. Organizations need to maintain good relations with employees by providing them with all the amenities they need to carry out their work efficiently. Organizations should continually try to improve the quality of work life of their employees. This is because a satisfied employee is more likely to serve customers with commitment than a discontented and aggrieved one. In the service sector, employees, especially, the front-level employees who interact with the customers, are considered to be the representatives of the organization. It is very important for an organization to satisfy and retain employees. It might happen that an employee who leaves the organization may take some customer accounts with him. For example, a customer of a bank might choose to use its services because he likes the way a particular service representative there receives him, listens to his needs, explains various services offered and gives good advice. If that representative leaves the organization and joins a competitor, and offers hassle-free transfer of the customer's account from the previous bank to the new bank, there are few reasons for the customer to reject the offer. This is because

## **Services Marketing**

the customer has developed a close relationship with the employee, rather than with the organization. Therefore, organizations have to strive to win employee loyalty and commitment if they want to enjoy customer loyalty. They should ensure that the employees are satisfied with the pay, perks and other benefits being offered to them. Apart from the management, the HR department also plays a very important role in retaining and motivating employees. It should conduct employee surveys regularly to know their opinion about the company's policies and procedures and seek their suggestions to improve them. HR executives should listen to employees' grievances and address them immediately. All these efforts will help an organization retain employees and motivate them to serve the customers with complete commitment. The employees will willingly put in extra effort to delight customers, because of their commitment to the organization. They can even describe their organization as a great work place and encourage others to work with it.

## **Supplier Markets**

Service organizations need some basic infrastructure and services to be able to offer services to their customer and internal markets. They depend on some suppliers who constitute the supplier market, to provide this infrastructure and basic services. For example, a courier agency which does not have its own flights has to use the services of some airlines to deliver letters and parcels. The agency can benefit by maintaining good relations with the airlines and can ensure careful handling of parcels, allocation of sufficient space, etc. Similarly, many airlines depend on food suppliers to provide food to their passengers on flight. By maintaining good relations with the food suppliers, airlines can offer customized, tasty and hygienic food to their customers. Another example is that of hotels that employ the services of interior designers to improve the ambience in their hotels and enhance the customer's experience during his stay.

## **Referral Markets**

Referrals are a very important source of business development, especially for service organizations. Existing customers, intermediaries, consultants, etc., constitute the referral market for service businesses. For example, insurance organizations sell their products and services through intermediaries such as individual agents and agencies. They also enter into a partnership with banks to sell their products and services across the bank counters. Therefore, it becomes very important for these organizations to maintain good relations with these intermediaries and influence them positively to serve the customers better. Amicable relations with intermediaries help organizations win their trust and confidence. Intermediaries would then actively advocate the services of the organization to prospective customers. In case of specific services like retailing and hospitality, employees of the firms and existing customers can bring additional business by recommending the organization's service to their friends and relatives. In case of some services like carpeting, interior designing, etc., builders can act as an active source of referrals. Sometimes, peers or counterparts in the same field of service can also be a source of referrals. For example, a general physician might refer a patient to a specialist, depending on the ailment and the diagnosis.

Organizations can reward referrals suitably to motivate them so that they continue to recommend their services to customers. Amazon.com, a leading online retailer, encourages referrals by giving them a percentage of the profits earned.

## **Recruitment Markets**

Every year in India, thousands of students from prestigious educational institutes like the IIMs, IITs, regional engineering colleges and other colleges are sought after by companies from different sectors of business. Organizations have to make special

efforts to attract these talented, young and energetic students who are extremely choosy and careful in taking their first career step. Organizations have to maintain continuous contacts with the heads of educational institutes, professors and placement officers. They can sponsor student events on the campus and conduct workshops, seminars etc., to attract students. These steps will help organizations understand the changes in the education system, students' opinions and preferences on education, career, etc. Organizations can then promise the right compensation, benefits, work environment and autonomy to attract students and prospective employees from the job markets.

Apart from the fresh graduates from the colleges and institutes, prospective employees working with other organizations form a major chunk of the recruitment market for any organization. These employees bring in their rich experience and knowledge from their earlier jobs. Organizations can attract these experienced employees by conducting workshops and seminars and through the word-of-mouth publicity provided by their own employees. Organizations also have to maintain good relations with placement agencies and head hunters so that they can impress prospective employees with the organization's positive aspects. This will enable organizations to have a wider choice and select the best candidates for vacant positions.

### Influence Markets

Influencers include shareholders, financiers, consumer protection groups, environmentalists, government, media, trade unions and the general public. Failure to maintain good relations with any of these influential groups can have a negative impact on the reputation of an organization and can sometimes even affect its performance. Therefore, organizations try to maintain good relationships with these groups to enhance their image and also serve organizational interests. For example, in Maharashtra, the Reliance group participates in various social welfare schemes aimed at improving the quality of life of people in the villages around the company's premises. The group has constructed water tanks and sanitation facilities, erected electricity poles, established schools and hospitals and co-operative banks in many small villages. Reliance has also attempted to minimize pollution from its plants by setting up modern effluent treatment facilities. It also maintains the greenery over 1000 acres of land around its refinery unit in Jamnagar.

## STRATEGY IN RELATIONSHIP MARKETING MANAGEMENT

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Service organizations that believe in the concept of relationship marketing formulate their strategies in a different way when compared to traditional organizations that believe in transaction marketing. The former's strategies are centered around building and developing long-term relations with customers while the latter's strategies focus on attracting customers for immediate business gains. Organizations formulate relationship marketing strategies in a systematic manner, though the manner is not quite different from the traditional process. The sequence in which these organizations formulate their strategy is discussed below:

### Mission and Vision

The first step in strategy formulation is determining the mission of the organization. The mission of an organization provides the direction for its progress and guides its future plans and strategies. In the absence of a mission statement, the members of an organization may not understand the purpose of the organization, and so may work in different directions and fail to achieve the organization's goals. The mission statement should clearly state the reason for the existence of the firm, its values and its long-term goals.

### Exhibit 17.1 Mission Statements

#### Disney's

"To be the world's premier family entertainment company through the ongoing development of its powerful brand and character franchises."

#### McKinsey's

"To help clients make lasting and substantial improvements in their performance."

#### Deloitte's

"To help our clients and our people excel."

#### AT&T's

"To exploit technical innovations for the benefit of AT&T and its customers by implementing next-generation technologies and network advancements in AT&T's services and operations."

Source: Daniel Rogers, "Is Disney Still Magic?" *Marketing*, 3 October, 2002, <http://www.mckinsey.com/aboutus/>, [http://careers.deloitte.com/culture\\_missionstatement.aspx](http://careers.deloitte.com/culture_missionstatement.aspx), <http://www.att.com/atlabs/about/mission.html>

The mission statement should be short and simple so that employees at even the lowest level can easily understand and assimilate it. The statement at the same time should be compelling and inspiring. A vision statement explains the objectives of the organization and the position envisaged by it. For example, "To be global leader in development of professionals specializing in corporate governance" – is the vision of The Institute of Company Secretaries of India.

The mission and vision statements of a service organization should invariably emphasize focus on the customer and commitment to quality customer service. The mission statements of some of the well-known service organizations are given in Exhibit 17.1.

## SWOT Analysis

In this step, organizations examine their internal environment to analyze their own strengths and weaknesses and the external environment to identify the opportunities for and threats to the business. SWOT analysis helps the management determine how the organization can develop capabilities and leverage on strengths to utilize the market opportunities and overcome the threats posed by the external environment. The management can evaluate organizational strengths by analyzing its financial and other resources, its competitive advantage over competitors and reputation among customers and shareholders. If the management observes weaknesses like poor cash flows, thin margins, complaints on service quality or decline in repeat customers, it needs to take immediate steps to improve the performance of the organization. The management should attempt to find out if there is any opportunity in terms of new technology, range of services, quality of services or new markets. The management also has to monitor the external environment to identify threats like the entry of new players into the market, stagnation of market growth, unfavorable changes in government policies, changes in the international markets, etc.

### Strategy Formulation

The management should formulate strategies to match the results of its SWOT analysis. It should formulate strategies to minimize the impact of weaknesses on the performance of the organization and eliminate the effect of external threats. The strategy should leverage on the organization's strengths and exploit the market opportunities for maximum benefits. The management should also make a thorough SWOT analysis of all the six markets (discussed in the previous section) and develop strategies accordingly. This should be done in accordance with the SWOT analysis of the organization. For example, an organization realizes during its SWOT analysis of the customer market that its communication, and therefore, its relationship with the market is weak. While evaluating the opportunities of the external environment, if it recognizes Internet technology as an opportunity, it can use it to improve its communication with its customers.

### Quality and Relationship Marketing

Quality needs to be given the topmost priority by service providers because any deterioration in the quality standards can reduce their credibility and affect the customers' perception of the firm. For example, when the Unit Trust of India (UTI) failed in 1998 to meet customer expectations on dividend payments of its mutual fund, US-64, it lost their trust and confidence. It struggled desperately in the subsequent years to rebuild its image.

If the service provider fails to meet the expected quality standards, the customer might not turn up again to avail of its services. Thus, an organization can lose a customer forever, even before it can develop a relationship with him. Therefore, the service provider has to implement Total Quality Management (TQM) and ensure that customers obtain consistently high quality service. Quality control and management systems like TQM should become an integral part of the service delivery process of an organization. Employees at all levels should be trained in various quality management techniques like Kaizen, Kanban and customer needs mapping, to ensure high standards of service.

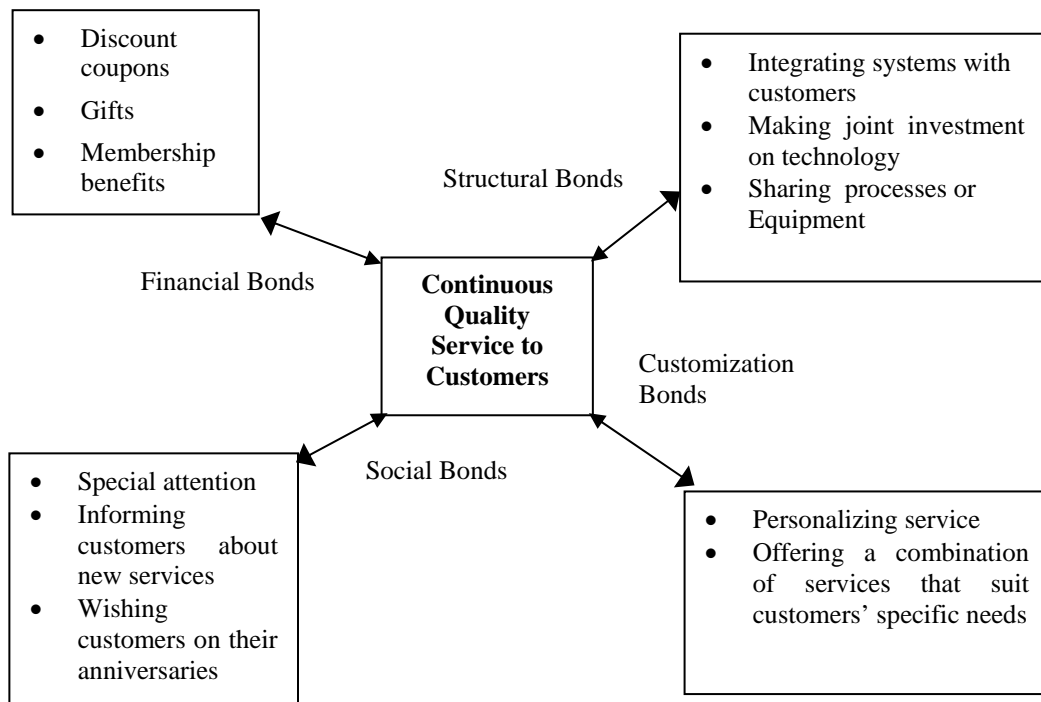
Quality related problems tend to be high when an organization introduces new services. These are teething problems and they tend to subside once the service stabilizes. For example, Reliance Infocomm faced a lot of teething problems when it first launched its service on a large scale across the country. However, the problems subsided as time progressed and the service stabilized. Some companies like MetLife, a leading global life insurance company, have attempted to offer quality services consistently by developing a systematic process for introducing new services. The process was developed based on the company's past experiences and every care was taken to ensure that the problems that occurred in the past did not recur. Each time a new service is introduced at MetLife, cross-functional teams are formed to study the details of the new service plan and discuss various issues involved such as pricing, claim payment policies and customer education. The team also reviews the draft prepared by marketing and underwriting specialists and makes suggestions to improve it by removing any loopholes that exist. Thus, when the service is launched after rigorous planning and screening, there is little scope for any lapses. This makes it easier for the company to attract and retain customers and build long-term relationships.

### RETENTION STRATEGIES

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A service organization attempts to retain customers by providing quality service consistently, thereby winning over the customer. Another important aspect of service marketing is providing personalized attention and customized service to the customer.

**Figure 17.2: Customer Retention Strategies**



Most of the strategies that are formulated for relationship marketing are based on these simple principles. Some of the strategies adopted by service organizations are discussed below:

### Four Level Retention Strategy

Leonard Berry and A. Parasuraman believed that customer retention strategies can be formulated at various levels and the level of strategy adopted by the firm will determine the strength of customer relationship and thereby, the competitive advantage to the firm. The authors suggested different levels of strategies, which have evolved into four different levels – establishing financial bonds, social bonds, customization bonds and structural bonds with customers (Refer to Figure 17.2).

#### Financial bonds

Organizations employ various measures to attract and retain customers. Some organizations attempt to retain customers by offering them financial incentives. Customers, attracted by these tend to continue the relationship with the organization. Airlines for example, offer frequent flier programs for regular customers. Members of this program can redeem the mileage points earned through their flights for free travel, hotel stay, gift vouchers, etc. (Refer Exhibit 17.2 for the frequent flier program of Jet Airways).

Another way of offering a financial incentive is by offering services at lower prices or discounts to existing customers. For example, the Housing Development Finance Corporation Limited (HDFC) offers new loans at low interest rates to its existing customers, when compared to those for new customers. An IT services vendor might decide to continue the old billing rate (in spite of introducing a new billing rate) for its long-time customer till the end of the financial year or till the current project ends. The membership cards offered by Shoppers Stop and Coffee Day are also examples of financial bonds.



**Exhibit 17. 2**

**Frequent Flyer Program at Jet Airways**

Jet Airways offers an attractive frequent flyer program for its customers. Customers need to fill in an enrolment form available at check-in-counters of Jet Airways or travel agent offices and mail it to Jet Airways to become members of its FFP. The FFP members are divided into JP Blue, JP Silver and JP Gold and are offered different privileges. Once a customer submits the enrolment form, he becomes a JP Blue member. Members obtain points or JP miles each time they board a Jet Airways flight or use the services of its partner companies like ITC Welcom group, Oberoi Hotels and Resorts, Northwest Airlines, BPL mobile, Citibank credit card and Avir Car Rentals. After they collect the pre-determined amount of JP miles, they can redeem them by booking free tickets to various destinations on Jet Airways or its partner airlines. By making 30 trips on Jet Airways flights or by earning 30,000 JP miles in a year, JP Blue members get upgraded to JP Silver. By traveling in 60 flights or by earning 60,000 JP miles, JP Blue members get upgraded to JP Gold members. The membership is reviewed each year and the status is changed depending on the trips made by the customer in the preceding year.

JP Gold members can redeem their miles for free tickets any time in the year while JP Blue members cannot redeem their miles during peak periods. JP Silver members can redeem them during some of the peak periods. JP Gold members can check in at special counters at airports while JP Silver and JP Blue do not have this privilege. Members of JP Silver and JP Gold and their family members traveling with them can use the lounge facility while JP Blue members do not receive this privilege.

By offering premium services to customers as they upgrade their membership status, Jet Airways encourages them to use its services frequently.

*Adapted from <http://jetairways.com/home.asp?strURL=jetprivilege/jetprivilege>*

**Social bonds**

Social bonds can play a very important role in retaining customers when there is no other factor that encourages or prevents them from switching to competitors. For example, some exclusive apparel stores like Levi's and Louis Philippe, record customer comments. When a customer asks for a product that is out of stock, the employees of the showroom make a note of it, along with the contact number of the customer and inform him when the product arrives at the store. When firms show such genuine interest in customers, they build a social bond with them. If one showroom of Levi's follows this procedure and another doesn't, customers would obviously prefer the former for its social bonding, as the quality and price are the same. Companies can thus enhance customer retention when they build social bonds with customers. They can improve their performance further when they combine social bonds with finance bonds. Social bonds normally exist between customers and their doctors, lawyers, investment advisors, etc.

**Customization bonds**

Some organizations attempt to develop a special relationship with customers by customizing their services to suit the specific needs and preferences of each customer (Refer to Exhibit 17.3). HDFC for example offers personalized services to its customers. Customer relationship managers of HDFC help customers in checking the title documents, determining whether they are paying/getting the right price during purchase/sale of property, choosing the right option from various loan options offered by the company and counseling them on any other problems that they may face in the process of loan approval. The customer can choose the loan amount and the repayment period, depending on the EMI amount. In today's world when individual customers have different needs and preferences, it has become imperative for organizations to offer customization. Companies which ignore this and offer mass products and services tend to lag behind in the race. However, price and quality aspects cannot be ignored by service providers.

### Exhibit 17.3

#### UPS

When UPS, the US based global courier company began operations in China, it realized that to succeed, it had to adapt its services to the customs and traditions of that country. It noticed that Chinese customers attached a lot of importance to interpersonal relationship and decided to follow a personalized approach. Accordingly, UPS sales personnel cordially approached the customers, explained to them about the services and only then struck deals. The courier persons of UPS too were recognized for their customer-friendly attitude. This approach enabled the company to develop a very good rapport with the Chinese customers and encouraged those who patronized other companies to shift to UPS. For instance, an advertising executive from a Chinese company shifted his account from a government-owned mail service company to UPS when a UPS executive approached him and explained the utility (both in terms of convenience as well as cost) of using UPS services for their business operations.

*Source: "FedEx Vs UPS," ICMR*

#### Structural bonds

Structural bonds are formed with customers when organizations offer value-added services which are not offered by competitors to them and the customers themselves cannot acquire the infrastructure needed to avail of such services. These services do not depend on the service personnel but on technology. This indicates that customers become dependent on the organization's structure rather than on the employees. The name "structural bonds," is derived from this nature of relationship. Once the structural bonds are formed, the customer will not attempt to switch to a competitor even if it lowers prices because it is not able to offer the kind of technical support he requires and the benefits he derives from the service he has. Organizations achieve structural bonds generally by integrating their information systems with that of customers, making joint investments in technology or by sharing some equipment and processes (Refer to Exhibit 17.4). For example, with the help of Wipro, Praxair India (a leading distributor of gases to organizations in different industries like food and beverage, healthcare, chemicals, etc.), installed a system called tank telemetry system at some of its customers' organizations and integrated it with its Logistics Management System (LMS). This enabled Praxair to keep track of the gas levels at customers' sites, anticipate demand and serve customers efficiently. At some customer sites where it could not set up telemetry system due to technical problems, Praxair set up a call center to call the customers periodically to know their requirements and deliver the gas on time. Merrill-Lynch, a leading financial provider pioneered in offering innovative financial services (in 1977). It transferred the money earned by its customers by selling shares and bonds immediately into the money-market fund. This ensured that the money did not remain idle and kept earning interest. If the customer required money, he could withdraw it by simply writing out a cheque. If the customer wanted more money than was available in the fund, he was given credit. These innovative services offered by the company helped the company increase its customer retention as well as attract new customers.

#### Monitor Relationships

Apart from adopting the retention strategies discussed above, organizations need to continually evaluate their relationships with their customers for enhancement. This is crucial because a customer may switch to a competitor's service any time he feels the absence or weakening of the relationship. Therefore, organizations need to not only maintain the relationship, but also work on improving it from time to time. Customers' needs and preferences may change with time and if the service provider does not respond to them swiftly, the competitors may grab the opportunity and thus the customer.

**Exhibit 17.4****SciQuest**

SciQuest is a pioneer in hosted procurement solutions for pharmaceutical, chemical, biotechnological and academic organizations worldwide. Its founders (Peyton Anderson, Scott Andrews and Keith Guntur) observed that a typical scientist spent an average of four to six hours per week searching through catalogs, making phone calls and talking to voice mail systems to locate the precise equipment necessary for their experiments. They designed a business model that could cut the time wasted by the scientists by 70 to 80 percent. They set up a website called SciQuest in 1995 and developed a comprehensive online database of over 8,000 suppliers with more than 650,000 scientific products and in 1999, they added an electronic purchasing system to SciQuest. The founders positioned SciQuest as an e-commerce marketplace that allowed buyers to place orders on the site. When sellers shipped the equipment, SciQuest earned a commission. The customers could compare the prices and features of products offered by various vendors, select the best vendors and place the order. Customers could place orders for different products from different vendors through one purchase order. SciQuest divided the orders among different vendors, tracked the orders and sent a consolidated electronic bill to its customers. Because of the huge cost savings and convenience it offered, SciQuest was able to have the world's leading pharmaceutical, biotechnology, chemical, academic and research organizations, such as Bayer CropScience, Aventis, Glaxo SmithKline, Roche, Pfizer, Procter & Gamble Eisai Research Institute, Memorial Sloan-Kettering, OSI Pharmaceuticals, and Schering-Plough as its customers.

*Adapted from SciQuest, Management of E-business Case Studies on Leading E-commerce Companies, Transworld University,*

[http://www.sciquest.com/news/2003\\_12\\_09.shtml](http://www.sciquest.com/news/2003_12_09.shtml) and

<http://www.eandi.org/news/archive/default.aspx?ArticleID=598&Page=80>

Companies can use customer relationship management (CRM) applications to capture customer data and study their behavior, needs and interests (Refer Exhibit 17.5). When the database is managed effectively, they can detect any change in the customer's spending patterns and his loyalty to brands in real-time. For example, American Express records almost every transaction that takes place on the credit cards of its customers. By tracking the stores and restaurants they visit, airlines they use and places they travel to, Amex is able to send customized messages on the monthly bills it sends to its customers. For example, if a customer boards a particular airline to travel to a particular place, the next month's bill sent by Amex mentions any discount offers or schemes announced by that airline. The efforts by Amex to enhance customer relationship through personalized billing enabled it to increase customer spending on its cards by about 20%. Credit card companies and direct marketing organizations collect a wide-range of customer data. Service organizations can enter into partnerships with these organizations that collect customer data to understand their customers better, come up with customized service offerings and strengthen their customer relationships. In India, insurance firms like ICICI Prudential and Aviva Life are employing CRM applications to obtain details about customers, understand their behavior, needs and preferences, and up-sell various products and services to them.

**Value Addition to the Service**

In today's world where customer expectations are quite high, companies worldwide strive to add value to the services they offer to their customers (Refer Exhibit to 17.6). An organization can be said to have succeeded in providing good service if the customer feels that his service experience is enriched every time he avails of its services. A satisfied customer will avail of services more frequently and generate more revenue for the service provider. Tata Infotech, one of the leading IT service

### Exhibit 17.5

#### JM Morgan Stanley

JM Morgan Stanley Retail Services, one of the leading financial services companies in India, wanted to collect information about customers who interacted with it and use the information to offer personalized services to them. Morgan Stanley installed a CRM application called SalesLogix software offered by Interact Commerce. The company hired the services of Tata Consultancy Service (TCS) for implementation and integration of the application into its system. The CRM application allowed Morgan Stanley to transform itself into a customer-centric company. The company believes that it is now able to understand its customers' needs better and offer the most suitable products to them.

Morgan Stanley has a customer base of 45,000 and handles products of 15 different capital markets. It distributes products like IPOs, mutual funds, company fixed deposits, fixed-income securities and insurance and executes transactions on stock exchanges for clients. The CRM application allows Morgan Stanley to store all the profiles of the customers and referrals in a systematic way. The information of any customer is available across all the branches, enabling the company to manage promotion campaigns and serve customers effectively. If a customer walks into any branch of the organization (or makes a call) and seeks advice from an investment advisor, the advisor is able to view the detailed profile of the customer, the history of investment he made in the past, types of investment he prefers, the amount of risk that he is willing to take, the investments that are due to mature and need reinvestment, etc., by just entering the customer-ID. Based on this information, the advisor can instantly advise the customer on his future investments.

According to Pallav Sinha, CEO of Morgan Stanley, the organization is able to target the right customers with the right products using the CRM application and has enhanced its relationships with customers. The company achieved 50% of the target set by it within six months of implementing the application.

*Adapted from "Providing Customer Service differentiation through CRM," Indian Express, 29 July 2002," and "Putting the Customer in the driver seat," [http://www.tcs.com/0\\_features/articles/lead\\_features/jm\\_stanley\\_morgan.htm](http://www.tcs.com/0_features/articles/lead_features/jm_stanley_morgan.htm)*

providers in India, which offers services like systems integration, offers various value added services to its clients. It continues to extend its services to its clients beyond the official warranty period. It resolves any technical problems that the client may encounter with systems, upgrades their systems continuously and redesigns components that become obsolete over a period of time to help its clients remain at the forefront in the use of the latest technology.

### Increased Customer Contact

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Organizations should keep the communication channels with their customers always active, to enhance the relationship. The two-way communication helps in understanding customer requirements better and in ensuring customer satisfaction. For example, earlier sales representatives of Glaxo visited doctors once in two months. But Glaxo later increased the frequency to once a month. The representatives updated doctors with information on newly introduced drugs in their area of specialization; on seminars conducted at various places; and provided them with medical journals. The constant communication helped Glaxo increase its market share and maintain its leadership position in the pharma industry.

The various advantages of customer communication and interaction have been discussed in detail in the earlier chapters of the text book.

**Exhibit 17.6**

**FEDEX offers Value Added Services**

FedEx is one of the world's leading transportation, logistics and supply chain management companies. The company's main focus has been on providing innovative and value added services to its customers. For instance, in September 2000, FedEx pioneered the launch of two new services for its Chinese customers – the Asia One and the North American Next Day Delivery. The new services enabled customers in Beijing, Shanghai, Guangzhou, Shenzhen and other neighboring cities to deliver their packages to 15 Asian cities (through Asia One) and major US and Canadian cities (through North American Next Day Delivery) on the next working day. As a result, FedEx became the only company in China to offer such services. Commenting on the FedEx's focus on providing best services to the customers, Marco Lee, Managing Director (Regional Sales – China & Mid-Pacific) of FedEx said, "FedEx always wants to add value to our customers' businesses. We are here not only to provide solutions to our customers; we are also committed to help them increase efficiency."<sup>1</sup>

*Source: Vivek Gupta, "FedEx-UPS in China," ICMR*

**Enhanced Customer Service**

For every service industry, there exist some key dimensions along which customers attempt to evaluate the quality of service. Some of these dimensions may be more crucial than others in the overall evaluation of a service firm, depending on the industry. For example, the taste and choice of food, the ambience and hygiene are of primary importance in the hotel industry, whereas promptness in service and service personnel become the secondary components of service. For airlines, the flight departure and arrival timings, time taken for check-in and check-out and facilities offered in flight are of primary importance. The quality of food is only a secondary service component. By improving the quality of secondary components of service along with that of the primary components, an organization can enhance the overall quality of its customer service. For example, Saudi Arabian Airlines and Singapore Airlines offer their passengers a wide range of dishes, wines and beverages to choose from. A service organization needs to know how it is being perceived by customers along the required dimensions and especially along the primary dimensions to work towards improvement of service standards. The organization should effectively use this knowledge to constantly improve its customer service and thus ensure enhanced customer satisfaction.

**RECOVERY OF CUSTOMERS**

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Sometimes, despite having the best infrastructure, the most advanced technology and thoroughly professional employees, organizations may fail to provide quality service to customers. In some cases, dissatisfied customers simply switch to competitors without any complaints. Some of them, however, voice their complaints to the company. By doing so, they do a world of good for the company, as it comes to know of its weaknesses and problems. There are some dissatisfied customers who might or might not voice their complaints, but share their bad experience with the organization with their friends, colleagues and relatives and create a bad image of the organization among prospective customers. This will have a negative impact on the business of the organization and hinder its efforts to attract new customers. Service organizations should have a proper service recovery system in place to pacify dissatisfied and disgruntled customers (Refer to Exhibit 17.7).

### Exhibit 17.7

#### Northwest Airlines

Northwest Airlines takes all possible steps to avoid delays in flight departures. But due to various technical reasons, if the flight gets delayed or cancelled or diverted from the usual routes, Northwest strives to minimize the inconvenience caused to its customers. If the departure is delayed, the staff apologize for the delay and announce the expected time at which the flight will take off.

If the flight is delayed by two to four hours because of technical problems at Northwest, each passenger is given a phone card with a talk time of about five minutes so that he could inform his family members (and/or office). They are also given an amenity coupon that allows them to have a free meal at the airport or earn Northwest World perks miles to be added to their miles earned in FFP. They are also given a travel discount coupon that allows them to buy a flight ticket at a discount in future. The passengers also get a similar service recovery kit, but with more facilities, if the flight is delayed beyond four hours.

If the delay is extended beyond twelve hours, Northwest arranges for rooms at a hotel near the airport, and meals for passengers at its own expense. The passengers also get a service recovery kit of higher value, than in the two earlier instances.

Even if the cancellation or delay is due to bad weather, air traffic control decisions or natural disasters like cyclones, earthquakes, fire, floods, etc., Northwest provides customers with discount coupons so that they can obtain services from hotels at a low price.

*Adapted from "Commitment - Notify Customers of Known Delays, Cancellations and Diversions,"*  
<Northwest airlines.com>

According to Tax and Brown, "Service recovery is a process that identifies service failures, effectively resolves customer problems, classifies their root cause(s), and yields data that can be integrated with other measures of performance to assess and improve the service system."<sup>4</sup> By adopting a service recovery system, service organizations get a second chance to rectify 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. The following guidelines should be followed by the management while developing a service recovery system:

### Track and Anticipate Recovery Opportunities

Organizations should attempt to know if any customer of theirs is dissatisfied with their service or any other aspect of the organization. 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. For example, a private IT company which regularly utilizes the services of a particular airline for the business travel of its employees, starts to utilize the services of another

<sup>4</sup> S.S. Tax, S.W. Brown, "Service Recovery: Research Insights and Practices." In T.A. Swartz, and D. Iacobucci, Handbook in Services Marketing and management (California: Sage Publications, 2000)

airline, at the behest of its employees. If the first airline has a proper database management system, it will be able to notice that the business from a corporate account has 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. Caterpillar uses advanced technology to monitor the functioning of its equipment hired and being used by customers, and on detecting any mal-function, informs its service personnel and proactively sends them to repair the equipment even before the customer complains.

### **Solve Problems Quickly**

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 rectify its mistake. If it fails to deliver even after being given a second chance, the customers will, perhaps, be lost for ever. The management should motivate its employees to utilize the opportunity to rectify 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 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. At AT&T, call center agents transmit customer complaints and data to the marketing and operations departments in real time. The management then takes immediate steps to fix the problems that occurred in the service delivery and improve service processes.

### **Train and Empower 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. Ford, for example, gives extensive training to employees in service recovery skills.

Employees should be able to notice any problems or mistakes that occur in the service process at the earliest, alert the people concerned about it, 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 annoyed, but 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.

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In some cases, employees fail to deliver the results in spite of their best efforts, due to organizational bureaucracy. Companies should empower their employees to take the necessary decisions which can solve customers' problems. This will speed up the process of service recovery, apart from improving the quality of service delivery. In cases where customers need to be compensated, employees may be given the freedom to determine the range of compensation to be given to the customer depending on the monetary losses and the mental agony experienced by him as a result of poor quality service. Some broad policies may be framed by the management to guide them in decision making. For example, Marriott International Inc. has limited the compensation amount payable to a customer to \$2,500. The compensation amount is determined based on the type of the problem encountered and the net worth of the customer.

## COMMUNICATION AND RELATIONSHIP MARKETING

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Generally, organizations bombard customers with information on their products and services through mails and phones, and believe that they have communicated effectively with them. What most companies fail to understand is that communication is effective only when there is a two-way dialogue with the customers. Organizations can use advertisements in different media, direct marketing letters, exhibition stalls and brochures to initiate dialogue with customers, but they should not be under the mistaken impression that they are means of interaction. This is only planned communication by the company to reach out to the customer. If a customer responds to the company's initial communication, then the process of interaction between the organization and the customer begins. The customer may seek various details on the services being offered by the organization and if satisfied by the responses of the service representative, may decide to hire their services. Thus, the customer enters into a relationship with the organization. Relationships become fruitful when the organization helps the customer understand his role in the service process to obtain prompt and desired service, gives him all the information he needs and extends complete support whenever required. Further, the organization also needs to understand the latent needs of its customers, offer them personalized services and strengthen the relationship so much that the customers perceive a formidable loss in switching to a competitor. Continual and constructive two-way communication is the key for such a relationship.

### The Four R's of Rewarding Relationships

The relationship between a company and its customers needs to be mutually rewarding and fruitful. It is, however, not an easy task for companies to maintain such a relationship for long. All customers are not alike and organizations cannot afford to maintain a relationship with all of them. They should choose the right customers and then invest in the relationship. Organizations need to keep track of the following parameters in order to build and develop successful customer relationships:

#### Relationship

A relationship should go beyond a one-time service transaction between the customer and organization. This is, in fact, the basic premise of relationship marketing.

Organizations tend to ignore existing customers while concentrating a little too much on attracting new ones. However, they do it at their own peril. In this era of intense competition, where no player is able to offer significantly different benefits than other players, a customer needs to be constantly assured by the service organization that he has made the right choice by purchasing its service. If we look at the cellular services market today, there is intense competition among the various players like Airtel, Idea,



Hutch, Reliance, BSNL, etc. To differentiate themselves and reassure the customer that he has made the right choice, these companies offer various freebies to them. For example, Hutch offers discount coupons to its customers, which can be availed of at different food joints, restaurants, and garment and lifestyle stores. Even if a customer does not perceive any problem in the service offered by his existing service provider, he may switch to a competitor because he doesn't perceive any difference in service. It is only by building a relationship with customers using the various bonds discussed earlier that an organization can retain customers.

### **Realization**

Organizations should realize that relationships are successful only when both the parties involved benefit from it. They should, therefore, give due attention to understanding the value their customer relationship strategy offers to its customers. When a company makes a service offering (say, a core service supplemented by some supplementary services), the customer compares it with those of the competing firms in the market and estimates its value in comparison to competitors' service offerings. A higher perceived value leads to customer satisfaction. If the organization continues to offer quality service unfailingly to that customer, their relationship becomes stronger. When this happens, the customer may not consider any alternatives and will continue to purchase the services of that organization. This relationship eventually becomes a long-term relationship.

When a customer becomes loyal to an organization, he tends to purchase more services from the organization and thus the relationship turns out to be more profitable for the organization. But during any of these stages, if there are major changes in the market conditions, the relationship may either break or become weak. For example, if a competitor introduces a markedly superior quality service or offers the same service at a very low price, it might have a strong impact on the consumer's behavior. When the difference in quality or service is significant, the perceived value of the organization's service declines and the customer switches to a competitor. Therefore, the management has to constantly monitor the changes in the market as well as customers' expectations, and accordingly redesign and realign its relationship strategies.

### **Response**

Customers value the responsiveness of the service provider as it indicates their value to the company. Therefore, organizations need to train and motivate their employees to respond to customers' complaints and requests promptly. In fact, service organizations need to have customer focus and attention ingrained in their corporate culture and in their employees. The time and quality of service delivery should match customer expectations. For example, a restaurant promises that a good quality executive lunch will be served within five minutes of placing the order. If it fails to meet the quality expectations of its customers or takes a considerably longer time to serve the food, the customers will get disenchanted. From time to time, employees should attempt to know whether customers have any complaints with the service delivery process. If there are any, the employees should address them immediately.

### **Relevance and respect**

Organizations should do adequate research to understand customers' requirements and their purchasing patterns, and use effective communication to enhance customer relationships and profit from them (Refer to Exhibit 17.8). For example, if a customer is browsing the net for a holiday trip for the whole family and a resort sends out a message on a value package being offered by it, the probability that the customer will be interested is high. But if the same customer is searching the Internet seriously for some information on a conference and the message by the holiday resort appears, it is unlikely to get noticed. On the other hand, it might even irritate the customer.

### Exhibit 17.8

#### Doubleclick Inc.

Doubleclick, a leading provider of online advertising solutions, enables web publishers and advertisers to deliver relevant ads through its DART (Dynamic Advertising Reporting and Targeting) technology. DART delivers ads to web pages based on what the user is searching for or the information already known about the consumer. DART technology targets and delivers ads to web users based on pre-selected criteria, including the web site category, time of day and regional geographic location. If the user responds by clicking on the ad, DCLK servers direct the users to the advertisers' website for more information. DART provides advertisers feedback on who saw their ads and how viewers responded when the ad was displayed. DART technology also offers users an opt-out procedure that prevents DCLK from collecting personally identifiable information from users.

*Source: "DCLK," Management of E-business Case Studies on Leading Companies, Transworld University, Volume IV, January 2001, p 12.*

Organizations should also respect a customer's desire for privacy and anonymity. If the customer signs up for a promotional newsletter from an organization but later requests the organization not to send the newsletters, it should immediately stop. Similarly, if the customer does not want the personal information collected from him by the organization to be disclosed to other marketing companies, the organization should not share the information. If the service organizations fail to honor customers' concerns, customer relationships will suffer and customer retention and customer loyalty will become a distant dream.

## SUMMARY

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Berry and Parasuraman defined relationship marketing as a process of attracting, maintaining and enhancing relationships with customers. Relationship marketing benefits customers as well as organizations. Customers can reduce their time and search costs and avoid anxiety by selecting services from a known supplier. Organizations can also save on the time and effort involved in attracting new customers. They can also benefit from the positive word-of-mouth publicity given by loyal customers. Some of the factors that differentiate relationship marketing from traditional marketing are focus on customer service, long-term orientation, high commitment to customers, customer interaction and commitment to quality. In order to adopt relationship marketing, organizations need to maintain relations with not just the customers but also with employees, recruiters, suppliers, referrals and influencers. Organizations need to develop a sound relationship strategy to enhance their relations with customers. The strategy is developed in a systematic way as follows – develop the mission and vision, conduct SWOT analysis, formulate strategy and develop plans to improve service quality. Some of the retention strategies used by customers are offering financial incentives, forming social bonds, customization bonds and structural bonds, monitoring relationships, adding value to services, increasing customer contact and enhancing customer service. Sometimes, despite efforts made by organizations to offer service with zero-defects, some errors creep in and the customer may experience problems. To deal with such situations, organizations should have a proper service recovery system in place to identify and solve problems at the earliest and minimize the inconvenience caused to customers. Organizations practicing relationship marketing should give the utmost importance to two-way communication to reap the desired benefits.

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## **Chapter 18**

# **Internal Marketing**

**In this chapter we will discuss:**

- Definition of Internal Marketing
- The Role of Internal Marketing
- Components of an Internal Marketing Program
- Developing and Implementing an Internal Marketing Program

*"In a customer driven company, the distribution of roles is radically different. The organization is decentralized, with responsibility delegated to those who until now have comprised the order-obeying bottom level of the pyramid. The traditional, hierarchical corporate structure, in other words, is giving way to a flattened, more horizontal structure. This is particularly true of service businesses that begin not with the product but with the customer."*

***Jan Carlzon, President and Chief Executive of Scandinavian Airlines***

As studied earlier, employees constitute internal market of an organization. They are as important as the external customers as they play a pivotal role in satisfying the end customer and running the business. Unless these internal customers are satisfied with the work environment and other benefits offered by their employers, they will not be motivated to offer the best service to the external customers. The employees of an organization form the point of interaction between the organization and its customers. Therefore, the quality of service offered by them determines the relationship of the customers with the organization.

Organizations that fail to meet customer expectations will see their profitability decline gradually and may even be forced out of business. This is especially true in the current fiercely competitive business environment that provides lot of opportunities to the customer. Employees are a key source of competitive advantage for service-oriented organizations. Though this is true for product organizations too, it is more so for service organizations. Recognizing this, organizations across the world have started giving their internal customers due importance. They are competing to attract and retain skilled and talented employees. The competition among companies for internal customers is as intense as the competition for external customers. In this chapter, we shall discuss the role of internal marketing, its different components and the process of developing and implementing an internal marketing program.

## DEFINITION OF INTERNAL MARKETING

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According to Berry, internal marketing is the process of "viewing employees as internal customers, viewing jobs as internal products that satisfy the needs and wants of those internal customers while addressing the objectives of the organization."<sup>1</sup>

Berry and Parasuraman define internal marketing as the process of "attracting, developing, motivating and retaining qualified employees through job-products that satisfy their needs."<sup>2</sup>

According to Mohammed Rafiq and Pervaiz K. Ahmed, internal marketing is "a planned effort using a marketing-like approach to overcome organizational resistance to change and to align, motivate and inter-functionally co-ordinate and integrate employees towards the effective implementation of corporate and functional strategies in order to deliver customer satisfaction through a process of creating motivated and customer-oriented employees."<sup>3</sup>

## THE ROLE OF INTERNAL MARKETING

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From the above definitions, it can be understood that internal marketing involves attracting and retaining the best talent in the market and motivating them to contribute to the organizational objectives. Internal marketing offers many advantages. Some of

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<sup>1</sup> L.L Berry, "The employee as customer," Journal of Retail Banking, Vol. 3, March 1981.

<sup>2</sup> Leonard L. Berry and A. Parasuraman, Marketing Services: Competing through Quality, (New York: The Free Press, 1991) p. 151.

<sup>3</sup> P.K. Ahmed and M. Rafiq, "The Role of Internal Marketing in Implementation of Marketing Strategies," Journal of Marketing Practice: Applied Marketing Science, 1995, Vol. 1, No. 4.

## Services Marketing

these advantages like high productivity and increased return on investment fall within the internal sphere of the organization. Others like better customer relationships and enhanced organizational image fall in the outer sphere of the organization. Internal marketing plays an important role in the following areas:

**Customer attraction and retention:** Internal marketing motivates employees to provide the best service to every customer and earns their commitment to strive for excellence in rendering services. Customers who enjoy superior quality service patronize the organization and bring in more business through repeated and increased purchases. They also help bring in new customers for the company when they provide positive word-of-mouth publicity. Therefore, internal marketing helps in attracting new customers and retaining the existing ones.

**Employee retention and motivation:** Internal marketing seeks to design jobs that provide satisfaction and enrichment to employees, create the right work environment and offer a reward system that motivates them to perform better. This helps the organization enjoy high employee productivity and also their commitment and loyalty towards the organization. It also helps in attracting the best resources in the talent market as the turnover rate would be low and the employees carry a positive image of the organization.

**Corporate image:** Internal marketing ensures that all the employees understand the mission, vision and objectives of the organization and their role in achieving the organizational objectives. When employees feel valued and respected by the organization, they work with enhanced commitment. Committed employees render superior service to exceed customer expectations and these delighted customers develop a positive attitude towards the organization. The satisfied employees together with customers create a good corporate image of the organization in the society.

**Change management:** Internal marketing emphasizes on listening to employees, addressing their concerns, and empowering them to play an important role in the organization. It believes in involving the employees while introducing any changes in the existing system by seeking and valuing their opinions and suggestions. Employee suggestions that are feasible and valuable are implemented and the employees rewarded suitably. This system generates enthusiasm amongst employees and encourages them to participate in implementing organizational change programs.

**Organization's performance and continuity:** Internal marketing emphasizes continuous training and development of employees to meet the future requirements of the organization and also help them achieve their individual aspirations. This ensures that organizations have a continuous and uninterrupted supply of talented and motivated people. Even when some employees leave the organization due to various reasons like retirement, resignation, etc., the organization will have suitable people at the next level to take over. This helps in preventing situations where employees face ambiguity and uncertainty due to lack of able managers, which would eventually affect the organization's performance.

## COMPONENTS OF AN INTERNAL MARKETING PROGRAM

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Product, price, place, promotion, people, physical evidence and processes are the various elements of external marketing of services. Similarly, internal marketing also has some basic components. According to Henry Woodruffe<sup>4</sup>, the components of internal marketing program are motivation, coordination, information and education. We will examine the following components of an internal marketing program:

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<sup>4</sup> Helen Woodruffe, *Services Marketing*. UK: Longman Group, 1992.

- Recruitment and selection
- Motivation
- Education and Training
- Coordination
- Empowerment
- Rewards
- Communication
- Knowledge sharing

The process of internal marketing starts with attracting and selecting the best and the most suitable resources for the organization. The next step is to motivate them through effective job design and reward systems. There should be coordination and cooperation among employees to ensure satisfaction and better productivity. This can be achieved by encouraging teamwork in the organization. Employees also need to be empowered to play a more important role in organizational decision-making as this enhances their self-esteem and they feel valued by the company. Education and training of employees is important for the growth and progress of the organization and of the employees as well. The different components of internal marketing are used for developing and implementing an internal marketing program, which is discussed in the following section.

### **DEVELOPING AND IMPLEMENTING AN INTERNAL MARKETING PROGRAM**

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Different organizations adopt different ways of implementing an internal marketing program. The success of the program depends on the commitment and seriousness of the organization and its ability to garner employee support. If the management makes sincere efforts to collect information on employee profile and their attitudes, it can succeed in developing a strategy to garner employee support and thereby implement an effective internal marketing program. The basic framework for implementing an internal marketing program is discussed below.

#### **Recruitment and Selection**

Organizations need to attract qualified and talented individuals so that they can offer quality services to customers. It is not just the talent of the individuals that matters, but also their psyche. They should have the right attitude and mindset to work in a service organization. Therefore, in service organizations where employees interact with customers and create an image of the organization and the service in their mind, the recruitment process should emphasize on the candidate's attitude, interpersonal and communication skills. For example, if an organization wants to recruit a person to attend customer calls, the management should not just look for a person who speaks grammatically correct language. The person should also have good interpersonal skills so that he/she interacts in a pleasing and empathetic manner. Employees in positions like this act as ambassadors of goodwill for the organization and strengthen its relationship with customers.

In a BPO firm, the recruitment process includes a written test to check the candidates' linguistic abilities, a voice test to check their accent and pronunciation and an audio test to evaluate their listening skills. The candidates who clear these tests are then tested for their analytical skills, computer skills and customer service skills. The candidates who succeed in all these tests are selected and given the necessary training

## Services Marketing

before they are actually put on the job. This elaborate procedure helps the BPO firms choose the right candidate for the job. It is not enough if the candidate has excellent linguistic skills, he also needs the patience to handle irate customers.

Different service industries need different capabilities, though some of the capabilities are common across different industries. Infosys looks for people who have an aptitude for learning, ability to learn fast and apply their knowledge to solve problems. According to former Chief Operating Officer and President of Infosys Technologies, Nandan Nilekani<sup>5</sup>, it is this ability of their employees that helps the organization thrive despite the ups and downs in the industry. FedEx similarly recruits people who are willing to take risks, who are entrepreneurial by nature, and are willing to take up challenges.

Organizations have to be cautious of the impending pitfalls in the process of recruitment and selection. They should ensure that they do not raise the expectations of employees so high during the whole process that they cannot handle those expectations later. The promise of an extremely challenging assignment and an elaborate selection procedure can raise the expectations of prospective candidates. For example, BellSouth used a very elaborate recruitment process to select candidates who have high levels of energy, intellectual capabilities and ability to work in a highly uncertain work environment. The management gave special individual attention to the candidates during selection and socialization processes. However, once the candidates were put on the job, they perceived a lack of identity. About 50 percent of the employees left the organization within a year. Hence, service organizations should ensure that the recruitment and selection process do not make explicit or implicit promises that cannot be fulfilled.

## Motivation

Organizations have to motivate employees to serve their customers with commitment and dedication. Employees should be made to understand the mission and vision of the organization and should be allowed to play a role in determining the organizational objectives. They should be aware of the importance of their role in achieving organizational objectives. On the successful completion of a project or efficient handling of a task, the management should publicly acknowledge the employee/employees responsible in a meeting or get-together. Timely and sincere appreciation will go a long way in motivating employees to contribute their best to the organization.

Compensation, which is a very important motivating tool, should be linked to the performance of employees. In the traditional system, compensation was linked to the position of the employee in the hierarchical ladder and employees at the lower levels would often get demotivated as they felt that their performance was not suitably rewarded. Most modern organizations adopt the 'variable pay' system, which is based on the concept of rewarding performance. The benchmarks and measures for superior performance should be established and communicated to employees. They should be regularly updated about their performance and given all the support required to improve their performance. When an employee realizes that the organization cares for him and is sincerely interested in his development, he will nurture a positive attitude towards the organization and will be more loyal and committed to it.

Management by walking around (MBWA) is also an effective tool to motivate employees. Managers practicing MBWA keep moving around the office, wishing employees at their desk, finding out if they have any problems, and helping them

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<sup>5</sup> Beena Nandakumar, "Interview with Nanda Mohan Nilekani – Top Down Vision, CEO interviews," Peopleone Consulting, September 19, 2001.



accordingly. This concept was used extensively by William Hewlett, the founder of HP. He went personally to the desk of each employee and talked to him. MBWA enables managers to build personal relationships with employees and motivate them to perform better.

Training and development programs, job enrichment, mentoring, improving the quality of work life also help organizations create a positive work environment and motivate employees.

### Education and Training

The most important task of a service organization after it hires a candidate is to make him understand the role he has to play in the organization, the importance of his role, and the kind of co-operation he requires from his colleagues to serve the customers effectively. He should be guided to develop a holistic view of the organization. In service organizations, employee attitude plays a very important role in determining the quality of services. Organizations should therefore impart the requisite knowledge and develop the right attitude in them.

In today's competitive business environment, organizations have to continuously upgrade their technologies and change their strategies. Consequently, they need to train and develop their employees to meet their changing needs. Even during those periods when the organization does not make any significant changes, it should encourage its employees to be proactive and work on developing their skills and knowledge so as to enhance their productivity.

Based on their long-term plans and strategies and the changes in the external business environment, organizations should estimate their future requirements, the knowledge and skills they need to develop for efficient functioning of the organization and train their employees accordingly.

Organizations, in their rush to meet organizational needs, sometimes tend to ignore the individual interests of employees. For example, suppose an IT firm imparts training in leadership skills to all its employees, without understanding their interests. Some of the employees might be interested in pursuing a specialized technical or research role and may not be interested in the leadership training. Therefore, the management should attempt to know the interest areas of employees before imparting training programs (Refer to Exhibit 18.1).

### Coordination

Implementing the concept of working in teams offers many advantages to organizations. Teams enhance employee productivity, their quality of work life and customer service standards. When employees work effectively in teams, they can effectively resolve their problems. As each member explains his perspective of the problem and gives a suggestion to resolve it, the team is able to synergize these ideas and arrive at the best solution. Since employees come from different backgrounds, they can find innovative solutions for problems. The members can also think of better ways to execute a particular task and thus improve the quality and speed of service.

Teams enhance employees' success thereby boosting their morale. Team spirit also adds to the employees' sense of belonging to the organization. Therefore, organizations should strive to create an appropriate environment for teams to thrive and succeed. Organizations conduct special training programs for their employees to help them improve their communication, interpersonal, problem solving, negotiation, conflict management and coaching skills, which make them better team players and leaders.

### Exhibit 18.1

#### Training and Development at Wipro

The in-house training department at Wipro takes care of all the training needs of its employees. Every new recruit in the company is put through a well-structured induction/training program, which covers all aspects of software development skills. Further, Wipro rolled out e-learning initiatives to meet the ever-changing training requirements of its employees. The 'training on demand' service helps employees to take proactive decisions regarding their training needs.

Wipro decided to offer its module leaders, careers in consulting or in business development. If an employee chooses a technical career, he becomes a Project Manager, and is made responsible for setting standards for a project, building customer relationships and providing technical assistance to his team. He is also in charge of developing a good work culture and environment for his team, besides interacting with other internal departments. Project Managers become Technical Managers, managing multiple projects and interacting with different clients. Successful technical managers can head any of Wipro's strategic business units (SBUs). Wipro employees are allowed to alter their career path midway to suit their core competencies. The opportunity to shift to either functional or technical specialization eventually is dependent on the employee's interest and expertise.

*Source: ICMR*

## Empowerment

Employee empowerment is another prerequisite for the success of internal marketing. Service organizations should give their employees enough freedom to take important decisions when required. This not only helps employees render better service to customers, but also enhances their own self-esteem. Customers expect service personnel to help them out when faced with a problem. At such times, if employees are forced to adhere to rules and regulations or have to consult their superiors before making a decision, it may result in poor quality service for the customer and lost business for the organization. The employee would also feel guilty and helpless in such situations. For example, a customer who has a savings account with a bank for the past 9 years needs money urgently and rushes to his branch (assume the bank has no ATM facility). He however forgets to carry his passbook and approaches an officer for help. In spite of the fact that the officer has known this gentleman for the past 9 years and his account shows enough balance, he cannot break the rules of the bank, which say that the customer has to carry a cheque or his passbook. In the absence of the branch manager, the officer says that he is not empowered to take a decision and declines the customer's request. The dissatisfied customer may close his account and take his business to another bank. The officer would also feel demotivated and demoralized at his lack of power to take small decisions.

Managers should therefore attempt to minimize rules and regulations that restrict employees from offering effective customer service. They should encourage employees to think independently and creatively and take decisions in the best interests of the organization. Southwest Airlines and ABB for example, have self-managed teams which take their own decisions without consulting higher level managers. In India, companies like TCS, Wipro and Infosys seek to empower employees by sharing their success and profits with them. Organizations can conduct training programs for employees to guide them in utilizing the freedom given to them wisely and judiciously.

## Rewards

Organizations cannot enjoy employee loyalty and commitment even if they have all the essential components mentioned above, but do not have a proper system to measure their performance and reward them. Rewards increase job satisfaction and morale of the employees.

**Exhibit 18.2****ESOPs are Less Attractive**

Many companies like Microsoft, Sun Microsystems, Infosys, Google, Cisco and Walt Disney offered ESOPs to their employees. The main objective of these companies was to attract, motivate and retain talented employees. However, in April 2000, when Microsoft's share prices fell heavily, employees expressed their concern about the decline in the value of the shares they held. Microsoft, therefore, stopped issuing ESOPs to employees. Infosys also stopped issuing ESOPs since May 2003. Instead, Infosys adopted a variable compensation system. In this compensation system, some part of the employees' compensation is fixed and another part is variable. The variable component depends on the performance of the individual, team and organization. The variable component of the senior management of Infosys is set between 35%-40% and for junior management is 10%.

Wipro too stopped issuing ESOPs since the second financial quarter of 2003. The major problem for IT companies in India in issuing ESOPs is lack of a model to account for ESOPs. Many IT firms in India are listed both in India and the US. The pricing norms in both the countries differ significantly. In India, ESOPs are not tax deductible while in the US they are deductible.

*Adapted from "Infy says ESOPs lost favor with employees" March 16, 2004, [http://www.moneycontrol.com/news/highlights/newsdetail\\_new.php?filename=news16032004150536.ht](http://www.moneycontrol.com/news/highlights/newsdetail_new.php?filename=news16032004150536.ht), "Flexi Pays: Variable Component Of Salary A Big Hit At Infosys," [http://www.financialexpress.com/fe\\_full\\_story.php?content\\_id=54876](http://www.financialexpress.com/fe_full_story.php?content_id=54876)*

They can be either intrinsic or extrinsic in nature. A reward is said to be intrinsic if it cannot be seen or experienced by others except the employee who receives it. Intrinsic rewards result in internal satisfaction to those employees who receive them. For example, an organization can assign a complex project or a challenging assignment to the employee who likes to work on it. And on successful completion, a representative of the top management may personally congratulate the employee or send a letter of appreciation. For example, the employee who offers superior customer service at GE call center receives a letter of appreciation from the head of call center operations. Extrinsic rewards are tangible in nature and are normally under the control of the organization. They include promotion, bonus, salary hike, ESOPs (Employee Stock Option Plans), etc. Infosys for example announced bonuses, special gifts and bonus shares for its employees to reward them for making it a \$1bn company.

Rewards can also be classified as financial and non-financial. Financial rewards are the rewards that employees receive in monetary terms. They include bonuses, annual incentives, ESOPs etc. ESOPs have however lost their sheen in recent times because of the volatility of stocks (Refer Exhibit 18.2). Former Chief Operating Officer of Amazon.com, Joseph Galli, accepted stock options only after the addition of a protection clause which stated that if the stock options declined in value, Amazon.com would pay him upto \$20 million as compensation.

Non-financial rewards are intangible and are paid in kind. For example, the organization may pay for the membership of an employee in a prestigious club, present the employee with a luxury car with a chauffeur or give him a spacious house in a posh locality (Refer Exhibit 18.3).

Some rewards are given to all the employees irrespective of their performance. They are called benefits. Benefits include subsidized food from the office canteen, scholarships for employee's children, reimbursement of medical expenses incurred by the employee and his family, or a paid vacation for the employee with his family once in a year or two and the like. Indian Oil Corporation (IOC), named among the best employers in India (2003), offers productivity incentive scheme, housing, transport and nearly 40 other welfare schemes (like post-retirement medical care) to its employees.

**Exhibit 18.3**

**Reward System at Taj Group**

The Taj Group of Hotels, a part of the Tata Group, created a unique employee loyalty and reward program known as STARS. The system was developed in accordance with Taj's core philosophy that 'happy employees lead to happy customers.' STARS, operative throughout the year (from April to March), was open to all the employees across the organization, at all hierarchical levels. It aimed at identifying, recognizing and rewarding those employees who excelled in their work. STARS was actively promoted across the group's 62 chain of hotels and among its 18,000 employees globally, out of which 15,000 were from India.

STARS had five different levels. Though employees did not receive any cash awards, they gained recognition by the levels they attained through the points they accumulated for their acts of kindness or hospitality. 'Level 1' was known as the 'Silver Grade'. To reach this level, employees had to accumulate 120 points in three months. To attain 'Level 2', known as the 'Gold Grade,' employees had to accumulate 130 points within three months of attaining the silver grade. To reach 'Level 3', called the 'Platinum Grade', employees had to accumulate 250 points within six months of attaining the gold grade. To attain 'Level 4', employees had to accumulate 510 or more points, but below 760 points, to be a part of the Chief Operating Officer's club. 'Level 5' which was the highest level in STARS, enabled employees to be a part of the MD's club, if they accumulated 760 or more points.

Points were granted to employees on the basis of parameters like integrity, honesty, kindness, respect for customers, environmental awareness, teamwork, coordination, cooperation, excellence in work, new initiatives, trustworthiness, courage and conviction. Suggestions by employees that benefited the organization fetched them significant points. Such suggestions in each hotel of the Taj Group were examined by the General Manager, HR Manager and training manager of the hotel. The suggestions could also be posted on the web, which were constantly monitored.

Employees could also earn points through appreciation by customers, 'compliment-a-colleague' forums and various suggestion schemes. Employees could also earn 'default points' if the review committee did not give feedback to them within two days of their offering a suggestion for the betterment of the organization. In such cases, the employees concerned were awarded '20 default points.' Hence, in an indirect manner, the system compelled the judges of the review committee to give feedback to employees as early as possible.

STARS helped employees work together as a team and appreciate fellow employees for their acts of kindness and excellence. It enhanced their motivation levels and led to increased customer satisfaction. In one case, a bellboy in one of the group's hotels who received an American customer went out of his way to care for the customer. Noticing that the customer, who had arrived late at night, was suffering from a cold, he offered to fetch a doctor. However, the customer refused the boy's offer. The bellboy then offered a glass of warm water mixed with ginger and honey, a traditional Indian home remedy for cough and cold. The customer was surprised and happy at the bellboy's gesture. He left a note of appreciation for him, which added to his existing points.

According to the number of points accumulated, employees would receive a star, which could be pinned on to their coat. When employees collected a certain number of points, they received gift hampers, cash vouchers or a vacation in a Taj Hotel of their choice in India. The winners of STARS were felicitated at a function held in Taj, Mumbai. The winners' photographs were displayed on a big screen at the function and they received awards given by the MD of the Taj Group. This awards ceremony significantly boosted their morale.

*Adapted from "The Taj's People Philosophy and Star System," ICMR and Sujata Chakraborty, "Taj's stars shine bright,"*

*[http://www.tata.com/indian\\_hotels/articles/20021115\\_taj\\_stars\\_shine\\_bright.htm](http://www.tata.com/indian_hotels/articles/20021115_taj_stars_shine_bright.htm)*

**Communication**

Organizations should facilitate two-way communication to encourage employee participation and empowerment. The flow of communication should not be restricted to the management's instructions to the lower level employees. Employees should also be given an opportunity to voice their opinions, concerns and ideas. Many organizations have employee suggestion schemes so that employees get an opportunity to convey their ideas and suggestions. However, there are only a few organizations that actually consider these suggestions seriously and implement them. When employees recognize that the organization does not value their suggestions, they lose interest in the scheme and in the organization as well. Similarly, organizations also maintain complaint boxes where employees can drop their grievances. However, only a few organizations have committed managers who consider the grievances of employees with empathy, take time to counsel the aggrieved employees, address their concerns and resolve their problems. Failure to listen to employees' problems and concerns can lead to high employee turnover in the long-run. Just as an organization conducts customer surveys to know their tastes and preferences before introducing a new service or to make improvements in the existing service, it should conduct employee surveys before it introduces new policies and processes or modifies the existing policies and procedures. Satyam Computers is one of the Indian companies which benefited significantly by implementing an employee suggestion system. It also won the award in the contest conducted by the Indian National Suggestion Schemes Association (INSSAN) in 2002. Satyam received about 5,000 suggestions from employees (to enhance the growth of the organization, improve work processes and work place ambience) of which 750 were implemented. SAP India, Wipro, Bharat Electronics Limited (BEL), Taj Group of Hotels and Tata Teleservices are examples of companies, which are implementing suggestion schemes in their organizations.

**Knowledge Sharing through Knowledge Management**

Knowledge management is a process of creating, disseminating and utilizing knowledge for organizational development. Organizations practicing internal marketing should not only impart knowledge to employees but also encourage them to share knowledge with each other so as to facilitate Knowledge Management (KM). When practiced effectively by organizations, KM offers several advantages in terms of enhanced knowledge base and improved customer service. KM enables organizations to identify and eliminate inefficiencies from their systems, identify and remove redundant processes, streamline their operations, improve service delivery processes and therefore customer service. KM also enables organizations to introduce new products and services in the market faster and increase their revenues by gaining an edge over their competitors.

By rewarding employees who share their valuable ideas and knowledge and contribute to the success of the organization, organizations can sustain the development of KM. This would also enhance employee morale and loyalty. Many organizations are using information technology to derive more value from KM. Google, Hoovers, Oracle, Peoplesoft, SAP, Wipro and Infosys are some of the service organizations that are practising KM (Refer to Exhibit 18.4).

### **Exhibit 18.4** **KM at Infosys**

Knowledge management at Infosys seeks to leverage the organization's vast knowledge and experience in industry domains, technology and application areas. Infosys maintains a knowledge bank and makes it available to all its employees at various locations via the corporate intranet. This knowledge bank consists of seven elements – body of knowledge (BOK), people knowledge map, process assets database, web-based training courses, CBTs, online journals and e-books or online books. BOK allows employees to share their experiences while working on different projects and the knowledge they gained from them. BOK analyzes all the information and categorizes it under various heads like software lifecycle activities, methodologies, project management, software quality and general information. The BOK system enables employees to work on projects in future without having to consult their senior employees each time they face a problem. It is especially useful when some experienced employees leave the organization or employees are working overseas for extended period. People-knowledge map describes all the experts within the organization and the area of their expertise. This helps employees know whom to contact when they have a problem in a particular area. The process asset database maintains all the documents, utilities and standards used in past projects. This helps employees working on similar projects to save time by quickly recovering the necessary documents from the system. Online books contain important documents, manuals and online journals enabling employees to update themselves with the latest developments in the industry.

KM at Infosys enhances the employees' knowledge, facilitates faster completion of projects without errors, and benefits customers and the organization.

*Adapted from "Knowledge Management,"*

*[http://www.softwaredioxide.com/Channels/Corporate\\_Space/Infosys/docs/best.htm](http://www.softwaredioxide.com/Channels/Corporate_Space/Infosys/docs/best.htm)*

## **SUMMARY**

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Internal marketing is a process in which organizations consider employees as internal customers and strive to satisfy their needs and requirements at work so that they, in turn, offer quality service to external customers. Internal marketing plays an active role in retaining customers as well as employees, enhancing corporate image, implementing change management and ensuring the organization's success. The major components that organizations need to include in the design of their internal marketing program are recruitment and selection; motivation and rewards; education and training; coordination; empowerment; communication and knowledge sharing. For implementing an internal marketing program effectively, organizations need to recruit skilled and talented people, motivate them with rewards, achieve coordination among employees, empower them, encourage two-way communication and knowledge sharing through knowledge management.

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## **Chapter 19**

# **Supplementary Services**

**In this chapter we will discuss:**

- Importance of Supplementary Services
- Classification of Supplementary Services
- Implications of Supplementary Services



A service has two components – core service and supplementary service. Core service is the basic service with the minimum required features, offered to customers. Some organizations attempt to provide some additional features along with the core service to differentiate themselves from competitors and enhance customer satisfaction. These additional services are also termed supplementary services or augmented services. If a particular product or service is nascent in the market or is in the growth phase, the strategy adopted by the organization is to improve core service to enhance customer satisfaction and achieve a competitive advantage. If the service has reached the maturity phase in its life cycle, the core service cannot be easily enhanced, and the supplementary services become essential. In this chapter, we shall discuss the classification of supplementary services and their implications for management.

### IMPORTANCE OF SUPPLEMENTARY SERVICES

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Today, customers are well informed about the range and quality of services offered by different organizations. They are also very demanding and have high expectations from the service providers. They compare the services offered by different players in the market and select the one that offers the best quality service at a reasonable price. Therefore, every service provider needs to offer excellent service to customers as a part of basic service package. Quality, thus, cannot be a source of differentiation among the players in a particular service industry. Therefore, service providers seek to differentiate their services by offering the customers additional services called supplementary services. These are also called auxiliary services, peripheral services or facilitator services. Some supplementary services, however, form an essential part of the service package because the core service offered by the service provider cannot be consumed without them. For example, an airport needs to offer check-in service and a tourism service provider needs to offer the reservation service in the absence of which, travelers will not be able to use their core services. Some services like reminder services (about the last day for payment of mobile bill, credit card bill, etc.) offered by service providers benefit the service provider and also enhance the service experience of the customers. Some hotels like the Oberoi and Holiday Inn in India subscribe to international newspapers (which otherwise reach 1-2 days late in India) on the internet and allow their customers to access the latest international news. This service is especially valued by corporate customers.

To make an augmented service offering, service providers need to add one or more of the following three elements to their core service – enhanced accessibility, enhanced interaction with the service organization and enhanced customer participation. Accessibility can be improved by increasing the number of locations at which the service provider offers his service or by increasing the number of working hours, the number of service personnel, etc. The interaction of customers with the service organization can be enhanced by reducing the response time to customers' queries, training the customer service representatives to enhance their skills, etc. Customers' participation can be made easy by reducing the number of forms to be filled in by them, the amount of information they need to give, or the number of visits to be made by the customer. In the case of online services or self-help services, the service provider can use user-friendly technology that enables customers to complete the process within a few clicks.

Offering the right supplementary service to the right customer is a powerful source of competitive advantage for service providers. For example, some hotels offer 24 hours internet connection to customers in their rooms. But this service is valued by corporate customers rather than a family that is on vacation. Service providers can also differentiate themselves by enhancing the range and quality of supplementary services they offer to customers. Some hotels offer a complimentary breakfast to all the customers who check-in and pick-up and drop facilities for those who reserve rooms in advance.

### CLASSIFICATION OF SUPPLEMENTARY SERVICES

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A service organization can deliver quality service to its customers if it follows a systematic method in identifying the customers' needs. As a first step, the organization has to conduct a market survey or take feedback from customers to understand their service requirements. Then, the organization should divide these service requirements into core and supplementary. It should evaluate its own performance in case of each service to understand where it stands in terms of customer expectations. After identifying the gaps between its own offering and the customers' expectations, the organization should redesign its service offering accordingly.

The core and supplementary services and their composition differ from one service industry to another. For example, while providing good food is a supplementary service in the airline industry, it becomes a core service when it comes to the hotel industry. However, Christopher Lovelock suggested that the various supplementary services offered across various industries can be grouped into eight categories<sup>1</sup>. They are information, hospitality, order-taking, consultation, safekeeping, billing, payment and exceptions. These categories are discussed below:

#### Offering Consultation

Management consultants offer valuable advice to organizations and help them formulate better strategies to improve and augment their business. Professionals like doctors, architects, lawyers and chartered accountants also offer consultancy services to their clients. The core-service offered by consultants is to provide advice and guidance to clients in solving their problems and adding value. Some consultants provide additional services and offer more convenience to customers. For example, say the general manager of an organization visits an HR consultant to improve the human resource processes of the organization. The HR consultant may not only suggest the required improvements but also help the personnel manager find an IT firm to implement a Human Resources Information System (HRIS) in the organization to improve the HR processes. An IT consultant may not only develop the required software and install it at the client's site, but also train the client's employees in using the software and help in resolving some technical problems relating to compatibility.

#### Hospitality

Some service industries like hotel and travel require customers to visit the site of the service provider and stay there till the process of service delivery is complete. These service providers should treat the customers as their guests and provide them with all the facilities needed for a comfortable stay or journey. For example, hotels should periodically perform a complete room maintenance exercise including the TV, shower, etc. to ensure that everything is perfect. By doing this, they can ensure that the customer is not subjected to the inconvenience of having maintenance people in his room during his stay.

The core service of a hospital is to offer good treatment to its patients. Some specific treatments and surgeries may require the patients to stay at the hospital for some time. The hospital should ensure that proper facilities are provided to the patient's attendants along with the patient. For example, there should be an extra bed and food facilities for the attendant, chairs for visitors in the room etc. The room should be cleaned regularly and hygiene should be ensured. All these are supplementary services provided along with the core service of treatment. If the hospital has a baby care center to take care of the young children of patients, it will be another valuable supplementary service. (Refer to Exhibit 19.1).

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<sup>1</sup> Christopher H. Lovelock, *Services Marketing*, 3<sup>rd</sup> edition, US: Prentice Hall International, 1996.

### Exhibit 19.1

#### Apollo Hospitals

Many people fear visiting a hospital. They do not like the smell of medicines, surroundings and the look of the hospital itself. The Apollo Hospitals (Apollo) group launched a boutique maternity center called Cradle in Mumbai in March 2004 to dispel the fears of would-be mothers. Apollo hired the services of a famous architect, Alfa Miller, to design the building and its interiors to give a unique look to Cradle and differentiate it from ordinary hospitals, which wear a gloomy look and frighten people. Cradle uses advanced technology and maintains international level healthcare standards to assure women that they are in safe hands.

In India, giving birth to a baby is considered a re-birth for women. Therefore, expectant mothers develop fears about delivery and undergo stress. Many working women who are away from their husbands and other family members look for people who can counsel them and address their concerns during their pregnancy. They also look for prenatal and postnatal assistance. But most maternity hospitals offer assistance to women only in delivery and a few days of post natal care. Cradle conducts special sessions and programs to educate expectant mothers about the care to be taken by women prior to and after delivery. It also has professionals and the necessary equipment to help pregnant women do some necessary exercises. It employs trained personnel to offer counseling to the soon-to-be mothers regarding the diet and nutrition needs of both themselves and of the new born.

In most hospitals, the labor room, delivery room and recovery room are three separate rooms and a pregnant woman is shifted from one room to another during delivery. But Cradle has all the medical facilities in a single room offering more convenience to women.

All the modern facilities and supplementary services offered by Cradle enable Apollo to augment core-service and position Cradle as a premium maternity care center and target higher end customers.

*Adapted from "Apollo Hospitals Launches Boutique Maternity Centres," 25 March, 2004.*

*[http://www.domainb.com/companies/companies\\_a/apollo\\_hospitals/20040325\\_launches.html](http://www.domainb.com/companies/companies_a/apollo_hospitals/20040325_launches.html),*

The core-service of holiday resorts is to entertain visitors with beautiful locales, luxury rooms and good food. But some resorts offer supplementary services like meditation and healthcare. For example, Taj Exotica in south Goa has an ayurvedic spa called Taamra, which offers healthcare services to customers. At Taamra, a professional doctor checks the pulse of the guests and then gives them an appropriate ayurvedic treatment if they desire. The treatment generally includes foot, head and body massages using herbs, roots and oils extracted from flowers and plants.

#### Safekeeping of Customer Belongings

When customers visit a service provider's site to stay or to travel, the latter has to assume the responsibility of the safety of their possessions. For example, airlines should ensure that a passenger's luggage reaches the destination safely along with the passenger, so that the passenger can pick up his luggage before leaving the airport. Airlines should also handle the luggage properly to ensure that neither the baggage nor its contents is damaged. Any damage will indicate the negligence of the airlines staff and create a bad image of its overall service in the customer's mind. Some airlines take care of the safety of some passengers like unaccompanied minors or adults traveling for the first time on flight, upon special request by customers and on payment of additional fee (Refer Exhibit 19.2). Similarly, the core-service of a courier company is to deliver a package at the customer's desired destination. But delivering the product 'safely' is also its responsibility. Failure to do so will reduce the credibility of the service provider.

### Exhibit 19.2

#### Northwest Airlines and Passenger Assistance Programs

Northwest Airlines offers a special child assistance program for children aged between 5 and 17. Under this program, a child can board a flight unaccompanied and the airlines staff will take care of him/her till he/she reaches the destination. For this, parents have to book tickets in advance and should have obtained confirmation before the date of departure. Parents should submit an application requesting assistance from airlines staff for their child and pay a certain fee for that service. Airline staff then help the unaccompanied child to board the flight at the departure point and to disembark at the destination. If the child has to board a connecting flight, the staff will accompany the child, get him/her on board and wait at the gate till the flight takes off. After reaching the city of destination, the staff hand over the child to the person mentioned by the parents in the application form. The person has to show his identity card to the staff before the child is handed over to him.

Northwest airlines offers a special assistance program to adults aged 18 and above also. If the parents or guardians of an adult are worried about his/her safety and want the airlines to provide them assistance, they have to follow the same procedure mentioned in child assistance program.

*Adapted from "Unaccompanied Minor," <http://www.nwa.com/services/onboard/minor/> and "Adult Assistance Program," <http://www.nwa.com/services/onboard/adult/>*

Retail stores like Food World and Shopper's Stop require that customers keep all their bags at the counter before stepping inside the store. If the customer finds his bag missing after coming back, he will obviously get annoyed. He might consider this as poor service of the store and may never shop there again.

### Providing Information to Customers

Customers value the information provided to them prior to purchase of a service as well as after its consumption. For example, the core service of airlines is to carry customers to their desired destinations. An airline can offer some supplementary services to enhance the service experience of the customer. Let us take the example of an Indian tourist who wants to purchase flight tickets for a family holiday trip to the US. If the employees of an airline provide him with information on the best route to cover all the planned destinations in the minimum time and at the minimum cost, it will be a supplementary service for the customer. In addition, if they help him book tickets on connecting flights from one destination to another within the US, it will be a valuable supplementary service. This is an example of pre-purchase service. Another example is that of the information provided by airlines on their websites. The website of Air India provides information about seat configuration, smoking and non-smoking areas and availability of seats on various flights to its customers. Customers can also check the status of their bookings, changes in arrival and departure times of flights on the website.

Let us now consider an example for post-purchase service. Suppose the flight of an airline is delayed by four hours due to some technical problems. If the airline individually calls up all the customers who booked a ticket on the flight and informs them of the delay, it is termed post-purchase service. The customers can then adjust their personal schedules accordingly. If the airline fails to inform the customers, they will reach the airport on time and be upset with the inefficiency of the airlines. Another example can be of travel agents who put in a little extra to offer supplementary services to customers. The core service of travel agents is to book tickets and deliver them to customers who do not want to take the pains of visiting the counters of airlines personally and standing in queues to collect the ticket. Sometimes, they also provide supplementary services like comparing the prices of different airlines and transportation services and booking tickets on the bus or flight that offers quality service at low price. Online travel planning sites offer many more supplementary services (Refer Exhibit 19.3).

### Exhibit 19.3

#### Travelocity

Travelocity is a leading one-stop online travel planning website, owned and operated by the SABRE GROUP. It provides the flight schedules of more than 700 airlines and reservation capabilities for more than 95% of all airline seats that are sold worldwide and 47,000 hotels and 50 car rental companies globally. Travelocity also offers more than 5,000 vacation and cruise packages. Besides, the company's website also provides access to a vast database of information regarding tourist spots, weather, hotel and rental car facilities, etc.

Travelocity offers many innovative features that enable users to obtain all the necessary information to plan a trip that is truly convenient, economical, pleasant and rewarding. Some of these features include:

**Dream map:** If a customer enters the budget he has for traveling and the city from which he plans to start his trip, he can view an interactive map that displays different cities he can travel to within that budget.

**Best Fare Finder:** This allows users to search for the lowest available fares and provides an interactive calendar that highlights the days on which the fares are offered.

**Airplane Seat Maps:** Users can obtain the pictorial display of the location of seats in the aircraft and using this feature, book their favorite seat online.

**Guarantee your vacation:** Users can cancel the air, hotel and car reservations they had already made and re-schedule their vacation to a more convenient date without losing any money.

**Fare Watcher:** This feature interprets complicated fare rules and shows the customer which days to travel, in order to avail of the lowest fare. Customers can then select their preferred travel dates from the graphical calendar display.

**Travelocity.com Photo Gallery:** Users can send photos that they take during their tour to the site and get them displayed in the Photo gallery of Travelocity.

**Hotel Mapping:** Users can view each hotel's location in the proximity to the areas of their interest. They can also obtain other information like the name of the hotel, the tariff rates, etc.

**Multi-media Vacation videos:** Users can view three-dimensional photos of cabins and amenities on cruise ships and vacation spots on the screen.

All these supplementary services offered by Travelocity enhance the overall shopping experience of its customers.

*Source: Travelocity, Management of E-Business, Case Studies on Leading Companies, Volume IV, Transworld University, 2000.*

Other modes of providing information to customers can be catalogs, booklets, pamphlets, touch-screen video displays, telephonic messages, etc. With improving technology, the modes of providing information have also improved. For example, when a customer visits the website of a bank or a financial institution, the latest offerings of the bank appear on the screen in the form of a pop-up or scroll down.

#### Taking Orders from Customers

Every service offer starts with the process of taking the order from the client regarding his requirements and the constituents and delivery of the service. Order-taking is the most important supplementary service provided by service providers. For example, when a customer wants to open a recurring deposit account with a bank, he will specify the day on which the account is to be credited, for what amount, from which account, etc. If the order-taking process of a service provider is complex and requires a significant amount of time and effort on the part of the customer, it will discourage

## **Services Marketing**

him from opting for the services of this provider. Consequently, the client may switch to a competitor whose order-taking process is simple and fast. For example, a bank 'A' may require a prospective customer to fill up long application forms, get the signatures of two people who hold accounts in the bank and complete some other formalities to open a new account. If another bank 'B' allows its prospective customers to open an account within an hour with no such formalities, customers will obviously prefer to go to B, if all other services and benefits offered by the two banks are the same. So, service providers should strive to improve their order-taking processes. Moreover, front line employees should explain all the services offered by the organization and respond politely to any queries made by the customers regarding the service offerings.

Customers want the service marketer to provide tangible evidence of the fact that their service order has been accepted. For example, airlines and railways provide tickets to customers showing details like the date and time of travel, the seat number, the reservation class, etc. Similarly, banks provide pass-books or bank statements.

## **Payment**

Customers can make the payment for services they have purchased by cash, cheque, demand draft, debit card or credit card or online. Service providers should have the necessary devices to accept the payment made by the customers in any form or mode. At some places, only the credit cards of certain banks or companies are accepted. This should be notified in big letters at the counter so that the customer reads it and decides whether he should use the firm's services or not. This will help avoid clashes and arguments between the service personnel and the customers at the time of payment.

If the payment is made in cash, the service personnel should take the money due and return the remaining change to the customer. If the customer wants to pay through a check or a DD, the service personnel should tell him in whose name he should make out the check or DD. If the payment is made through a debit or a credit card, the customer should immediately be given the slip containing the details of the amount charged. If the payment is made online, the service provider should ensure that the personal details of the customers are not revealed to unauthorized personnel or misused. Organizations like LIC, BSNL, Citibank credit cards, Mobilink pagers, BPL phone, Airtel, Reliance Energy Ltd., allow their customers in Mumbai, India to make payment through an online payment site called billjunction.com. In this case, customers have to contact billjunction.com for any payment related complaints.

## **Billing**

This is a supplementary service provided by service marketers at the end of the service delivery process. The bill should be legible, should clearly state the service offered and the amount charged for that, the total amount that needs to be paid by the customer and other details like time, date and venue. These details are especially important for people who use the service for official purposes and need to claim their expenses from their organization by submitting the bill. For example, if a business executive books a conference hall at a hotel to hold a meeting with important clients and offers them snacks, soft drinks and lunch during the discussions, the hotel has to provide a proper bill for the charges, with the break-up for the rent of the hall, the charges for the food served and the drinks offered and the total amount to be paid.

Service providers should ensure that the billing process is perfect and that the bill does not contain any errors. Errors like charging for services that were not availed, etc., lead to frustration and dissatisfaction among customers. Even if the core service offered by the service provider is of superior quality, wrong billing reduces his

credibility and the dissatisfied customers can cause further damage by providing bad word-of-mouth publicity.

Service providers should try to provide bills to their customers in the form they desire. For example, some customers may demand an online bill while others may need a hard copy of the bill. The Maharashtra State Electricity Board in India sends a copy of the monthly electricity bill via e-mail to customers on request.

### Special Services

Service delivery often involves a live interaction between the customers and the service personnel. Sometimes, the customers may seek a slight modification or a significant change in the service offering. The service provider should plan for such contingencies and prepare in advance to cater to such customer demands. In case the customer feels dissatisfied with the service quality or the service delivery, he may complain and may also demand a refund of the service charges. Service personnel should be trained to deal with such situations. Let us discuss four types of exceptional cases which service personnel may face:

**Special requests:** A service provider may provide a standard level of service to all his customers. If one of the customers wants a modification in the service, the service provider should attempt to make the desired change or explain to the customer the reason for his inability to offer the desired service. For example, a customer may make bookings for a certain holiday package. In the midst of the tour, he may take a fancy to a place and request the tour operator to extend his stay there by a day. If the operator has an alternative option and can arrange for the customer's extended stay, he should do so. But if there is no such possibility and the other travelers are not interested in extending their stay at that place, the service personnel should explain the situation and convince the customer to stick to the original schedule.

**Providing solutions:** Sometimes, service personnel face some problems in service delivery owing to systems failure or shortage of service personnel or introduction of new and unfamiliar equipment. For example, say the ATMs of XYZ bank fail to update the latest transaction of customer accounts because of a technical failure and produce transaction slips that carry outdated information. Worried customers may just barge into the bank, approach the service personnel and shout at them for the error. Service personnel should understand their concern, maintain their equanimity, explain the problem and ensure immediate corrective action. If the records have been updated in the central database system and the error is at the local level, they should give this information to the customers to pacify them.

**Handling customer comments:** Customers who face problems during their service experience with the organization may want to complain about it to the management. Some customers, who find the service to be average and see scope for improvement, may want to make suggestions. Others who are extremely happy with the service may desire to compliment the service personnel and the management. Service personnel should ensure that the suggestion, complaint and compliment books are made easily available to the customers to enable them to make their comments and express their opinions. The website of Central Railways provides details about the officials to be contacted and the phone numbers to be used for lodging complaints in case of any dissatisfaction with the services offered by its staff. Most star hotels provide feedback forms in the hotel rooms for the customers to express their opinion on the services offered. Similarly, service personnel in restaurants submit a feedback form for customer comments, along with the bill.

**Restitution:** In some rare cases, service providers may completely fail to provide the promised service to customers. In such cases, the customers expect the service provider to not only refund their money but also compensate in some form the inconvenience or loss caused. For example, when a tourist is denied accommodation

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in a hotel in spite of advance booking, due to unavailability of rooms, he will expect the hotel to refund the charges and also help him find alternative accommodation.

If a service provider finds that his service personnel are faced with exceptions frequently, he should consider it as an indication that the service process needs to be redesigned or the service quality needs to be improved. For example, if the customers at a bank frequently complain that they had to wait at the counter for more than an hour to receive the service, the service provider should try to identify the root cause of the problem and take steps to speed up the process of service delivery.

### **IMPLICATIONS OF SUPPLEMENTARY SERVICES**

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With the growing competition among service providers in the market, supplementary services are being packaged along with the core services to attract and retain customers. Some supplementary services are considered by customers to be an integral part of the core service and they cannot imagine a service delivery without them. Therefore, when a service provider fails to provide these supplementary services, customers may describe their overall service experience as bad and unsatisfactory even if the core service is good.

It is not necessary that all core services include all the supplementary services discussed in the earlier section. For example, airlines may have to provide a safekeeping service for passengers' luggage which they cannot carry along, but an Internet browsing center or a fast-food joint does not have to offer this service. In fact, in most places, the management requests its customers to take care of their belongings and specifically states that it is not responsible for the safety of their belongings. In such cases, the customers themselves do not expect the management to offer such services. However, if a five-star hotel fails to provide a safekeeping service, customers would rate it as a poor service provider.

If a service provider promises a supplementary service but fails to render it, the customer can initiate legal action against the provider. Therefore, it can be said that service providers may be legally bound to provide supplementary services if they have been promised to the customers.

Therefore, service providers should be careful in promising and delivering supplementary services to their customers. An effectively delivered supplementary service enhances the core service, improves customer satisfaction and thereby enhances the corporate image. Some supplementary services like information and order-taking help the customer use the service in a more efficient and effective manner while some services like hospitality help the service provider to attract and retain customers. Some of the organizational implications of supplementary services are discussed below:

### **Designing Special Packages**

Some supplementary services are provided free to the customer while some are charged. For example, some restaurants have toys and sports kits which can be used by customers' children to play with and enjoy. Similarly, some financial organizations like ICICI Bank promise to charge zero processing fees for home loans to customers. However, some supplementary services accompany the core service only at a price. For example, if the passengers of airlines carry luggage beyond the permitted limit, they need to pay extra charges so that the excess luggage can be carried to the destination. In trains like the Rajdhani and Shatabdi, all the customers are provided meals during the journey, free. In fact, the cost of the ticket includes the cost of these supplementary services. In most other trains, passengers have to place their order for food and pay for it. If service providers decide to charge for supplementary services,



their price should be fixed on the basis of the price charged by other players in the industry. They should constantly review their pricing and positioning strategies vis-à-vis those of competitors to make necessary changes from time to time.

Customers are sometimes willing to put up with some deficiencies in supplementary services, provided the service provider offers a high quality basic service at a low cost compared to other players in the industry. For example, Air Deccan, which operates basically in South India, charges lower fare than other airlines, but does not serve free food to passengers. The passengers have to buy food if they want to. However, the airline promises arrival and departure of flights on time.

Whenever a service provider considers adding a supplementary service to the existing service, he should first determine whether the customer wants it or not. By adding a supplementary service which customers do not need or value, the service provider will only add to the costs of his business, without reaping any benefits from it.

### Outsourcing Non-core Services

It is beneficial for service (or even manufacturing) organizations to outsource some of their non-core activities. Outsourcing enables organizations to focus on their core business activities and serve the customers better. For example, the core business of HLL is marketing, so it outsources its product manufacturing. However, a service provider has to be careful in deciding the activities that can be outsourced and those that should be performed in-house. For example, consider the business of a banking or financial institution. In its case, some back-office operations like processing credit card information, maintaining the customer database, training service personnel etc., can be outsourced, without making any difference to customer service. However, some of the core operations like portfolio management, investment advice, marketing, etc. may have to be retained by the company. When a service organization decides to outsource some of its activities, it should choose a reliable company that has proven expertise and a good record of service delivery. The company should have proper quality control and monitoring systems to see that discrepancies or problems do not creep in and cause inconvenience to customers. For example, hotels can outsource their house-keeping services and training of service personnel to external organizations for a fee. For example, ASHL (Apollo Sindoori Hotels Limited) offers ISO 9002 certified front-office services, house-keeping services, food and beverage services, maintenance services and security services to various organizations. It charges a monthly fee from its clients for its services.

Service providers should be cautious in outsourcing front-office activities, like providing information to customers, and responding to their queries and problems. Customers interact with front-office personnel and equate the quality of their interaction with that of the organization's service. If the customers feel dissatisfied at this stage, they will not have a pleasant experience in their interactions with the organization and prefer to take their business to competitors in expectation of better service. Organizations might also stand to lose an opportunity to interact with customers, identify their needs and take feedback and suggestions from them. So, they may sometimes fail to respond to customers' needs and offer the services that are of real interest to them and lose ground to competitors who offer competitive supplementary services.

Organizations of late have been outsourcing various business activities to business process outsourcing (BPO) firms, which makes it even more difficult for the management to obtain control over the processes. In such cases, an organization needs

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to integrate its information systems with that of the BPO firm and ensure that the information flows freely between them without any time gap or distortion of information. This can help the organization offer an uninterrupted and effective service to customers.

### Converting Supplementary Services into Core Services

Organizations offer some services to supplement their core service and over time, achieve unique expertise in that area. At times, the supplementary service may gain so much prominence among customers that it becomes as important as the core service for them. Organizations can offer this service to other organizations in the industry or in any other industry, which might like to outsource it. For example, Ashok Leyland Finance finances commercial vehicles, but not only those from the Ashok Leyland stable. Though it started as a supplementary service to the buyers of Ashok Leyland vehicles, it has now extended its operations and offers its services to other customers as well. Similarly, captive BPO centers like GECIS have ventured to offer their services as third party service providers to other organizations.

However, the management of a service organization has to strive hard to offer highly efficient and error-free service when it offers a supplementary service for other businesses. Any failure will affect the business of its clients, who may sever relationships with the organization. Unless the organization can prove that it can offer a better quality of service to customers than the client can offer them by performing the service activity in-house, it cannot win further business from clients. If it fails to do so, then all the investment made by it in establishing the infrastructure required to serve the clients will go waste and the actual core service of the organization might itself suffer because of diversion of resources.

## SUMMARY

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The additional services offered by organizations to augment the core product/service are called supplementary services. The kind of supplementary services offered by organizations differs from one service industry to another. According to Lovelock, different supplementary services can be clustered under eight heads. The eight heads are consultation, hospitality, safe-keeping, information, order-taking, exceptions, billing and payment. Some supplementary services like information and order-taking facilitate effective utilization of the core-service by customers while some supplementary services like hospitality and safe-keeping augment the core product/service. The use of supplementary services in organizations requires managers to make difficult choices and decisions. Some of the implications of supplementary services for managers are designing special packages, outsourcing of non-core services and converting supplementary services into core services. Sometimes, organizations develop the necessary expertise in a particular supplementary service so that they can adapt it to be a core service. They can increase their revenues by rendering this service to other organizations which prefer to outsource it.

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**Part VI**  
**Challenges for Senior Management**

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## **Chapter 20**

# **Developing and Managing the Customer-Service Function**

**In this chapter we will discuss:**

- Customer-service Definition
- Improving Customer-service
- Technology to Improve Customer-service
- The Customer-service Management Cycle
- Offering Supplementary Services in Addition to Core Service
- Enhancing Customer Service Through Improved Service Delivery Process
- Steps to Implement an Effective Customer Service Program

## Services Marketing

Organizations, in the past, offered a product or service to the customer and their responsibility ended with that. But now with the customers becoming increasingly aware and the vast amount of information available to them from various sources, their needs and expectations from service providers have increased dramatically. Customers select a service provider depending on several parameters, of which customer-service is the most important. They observe and analyze various factors when they accept a service from an organization – the quality of core-service offered, the range and quality of supplementary services, reception by the service personnel, the time and effort invested in using the service, and any opportunity costs that were involved. All these factors will be considered by a customer while rating and choosing a service provider. Therefore, service providers who ignore these aspects of customer service fail to create a positive impression on the customer and are rated as poor service providers. This leads to a reduction in repeat customers and ultimately affects the profitability of the organization. If the organization does not take the necessary corrective steps, its survival itself might be threatened. Therefore, organizations worldwide are emphasizing on developing and managing an effective customer-service function. In this chapter, we will define customer service, ways to improve it, and the role of technology in improving it. We will also discuss the customer-service management cycle, supplementary services, how to enhance customer service through an improved service delivery process and the steps to implement a customer-service program in an organization.

### CUSTOMER-SERVICE DEFINITION

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According to the ACA group, "customer service is the ability of an organization to constantly and consistently give the customer what they want and need."<sup>1</sup>

Christopher Lovelock defined customer service as follows:

"Customer service involves task-oriented activities, other than proactive selling, that involve interactions with customers in person, by telecommunications, or by mail. This function should be designed, performed, and communicated with two goals in mind: customer satisfaction and operational efficiency."<sup>2</sup>

### IMPROVING CUSTOMER-SERVICE

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

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<sup>1</sup> (www.theacagroup.com) The ACA Group of USA is an alliance of highly trained and experienced consultants and instructors providing consultancy services, training & education to a variety of manufacturing and service organizations, in both the public and private sectors ranging from five million dollars in annual sales to Fortune 500 companies

<sup>2</sup> Christopher H. Lovelock, *Services Marketing*, 3<sup>rd</sup> edition (US: Prentice Hall International, 1996)



## Developing and Managing the Customer-Service Function

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

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

***Divide the basic service into separate service activities:*** Each core or supplementary service provided by the organization should be divided into specific service activities/tasks. This will enable the management to set the standards for each service activity, communicate them to its employees and then train them accordingly to maintain the standards. For example, at a restaurant, the basic service is to serve good food to the customers. However, there are separate service activities that constitute this basic service. For example, the security personnel at the gate opens the gate and directs customers to the parking lot, another assistant at the parking lot helps the customer park his car, an executive at the reception welcomes the customer, the in-charge takes the order for food and drinks, the chef prepares the dishes and a waiter serves the items on the customer's table. The person at the parking lot should take care to ensure that no customer faces a problem in parking or retrieving his car, the reception executive should welcome them with a smile, the in-charge should be courteous and help the customers make the right choice of food and drinks depending on their taste, the cook should prepare the dishes to suit customers' preferences, and the waiter should arrange the dishes on the table efficiently and attractively and serve the customers.

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

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

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

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

## TECHNOLOGY TO IMPROVE CUSTOMER SERVICE

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Customers today are more informed and more aware than they were in the past. For the same reason, they are also more demanding now. They expect high quality service enriched with supplementary services. They desire convenience and speed of delivery and that too at competitive prices. In these days of globalization, a customer moves

### Exhibit 20.1

#### Standard Chartered Bank Improves Customer Service

Many organizations are using data mining and data warehousing solutions to extract customer data and improve customer service. Standard Chartered Bank (SCB) uses an On-Line Transaction Processing (OLTP) system to capture customer data. OLTP enables SCB to carry out transactions efficiently while capturing the details of the customers who request transactions. Since it is difficult to manually handle the huge volume of data collected from customers, SCB has deployed a customized CRM solution offered by SAS. The solution enables SCB to obtain information about customer profiles and segments and market its products intelligently such that the risk is minimized and the returns are maximized. The solution also enables SCB to target its marketing campaigns at the right customers, reduce the cost of marketing and improve customer-service for existing customers. SCB is also able to respond quickly to changes in the market and exploit better, the opportunities for customer attraction and retention. Because of the in-depth information available about customers, employees are able to offer personalized services to customers and thereby enhance their overall service experience.

*Adapted from "Enterprise wide Applications, Greasing the Business Mechanism,"*  
<http://www.networkmagazineindia.com/200306/is08.shtml>

across a country or the globe on official or personal work, but still expects his service provider to deliver quality service consistently. For example, he wants to use the same credit card for all his purchases and the same mobile phone service for all his communication needs, across the world. However, it is not so easy for the service provider to maintain the level and quality of services offered once the customer is physically away from the service provider. In such cases, it is the advanced technology that comes to the rescue of service providers. It helps them offer consistently high quality service to customers by overcoming all the barriers.

For example, a customer holding an ATM card of ICICI Bank can not only draw money, but can also get updated account information from anywhere in India. In the past, customers had to personally go to the branch of the bank where they held an account, to withdraw money. ICICI also offers an online banking facility which allows customers to conduct banking transactions from anywhere in the world. Similarly, a person carrying a Visa card can purchase products and services across the world, without having to carry any currency. A person in India can gift a book to his friend in the US using the Internet (through a website like amazon.com), without being worried about the transfer and delivery of goods.

Jet Airways launched the e-ticketing service in April 2004 in response to an increased demand from customers for the service. This enables customers to book tickets on Jet Airways flights from anywhere using the Internet. They need not visit the travel agent or the airlines' office to book their tickets. (Refer to Exhibit 20.1 to understand how Standard Chartered Bank strives to improve customer service)

## THE CUSTOMER-SERVICE MANAGEMENT CYCLE

Improving customer-service is a continuous and never ending process for an organization. Therefore, the customer-service management function can be represented in the form of a continuous cycle. The various stages in this cycle include understanding customers, establishing service standards, encouraging team work and customer orientation, establishing control systems and preventing problems rather than fixing them<sup>3</sup>. Let us discuss these stages in detail:

<sup>3</sup> William B. Martin, *Managing Quality Customer Service*, Crisp Publications Inc., 1989

### Stage 1: Understand the Customers

In this stage, organizations seek to understand their customers' needs and desires so as to offer them the services they desire and value. To understand customers better, a service provider needs to think from the customer's perspective. He should ask himself several questions – what kind of service do they want, what process do they follow to select a service provider and purchase a service, what benefits do they expect from the service, what supplementary services do they expect and how do they perceive the service being offered and so on. He should then make a systematic analysis of the market, his customer base and his offerings to answer these questions. These systematic efforts constitute stage I. Stage I requires organizations to follow certain steps like defining/redefining the services that they offer to customers, determining the characteristics or features of the service, developing the profile of the consumers and understanding their perception of the services and the service provider.

#### Selecting the target, defining the service and the users of the service

How can service marketers distinguish themselves from their competitors in the business? Some of them attempt to distinguish their services by emphasizing on quality, price, luxury, supplementary services, etc. For example, a leading hotel chain like the Oberoi group differentiates itself from small/local hotels by offering well furnished rooms, high quality service, luxury and comfort to customers. Some other service marketers identify the unmet needs of customers and attempt to satisfy them, thus creating a niche market for themselves. When service providers select a specific niche market they need to research the market thoroughly to understand the requirements of customers. For example, in 1998, MetLife, New York, decided to offer customized products to the parents of physically and mentally challenged children, to help them meet the special needs of their children<sup>4</sup>. The decision was made after the vital statistics showed that one out of every five children was disabled and therefore, the market was a niche market. There were no players serving that market at that time. MetLife selected some experienced financial planners who had a good customer service record and trained them to serve these niche customers. These trained planners were called specialists and they traveled across the country, worked with the parents of challenged children (and support groups set up in the society to help them), identified their needs and counseled them. In the case of newly identified and targeted markets, though there may be no competitors initially, once customers begin to respond and the business picks up, other players may enter the field. Service providers should, therefore, continuously strive to understand customers' needs and improve their service package.

Whether a service provider wants to serve the general market or a specific niche, he should first define the services he plans to offer, and the customers he wants to serve. The services should be defined from the perspective of the customer. For example, consider the example of a financial consultant. He and his team can record the requirements of customers and create a database of the different types of customers and their needs. They can seek the help of their existing clients in making the list more comprehensive. The list will enable the consultant to redefine the services of the organization. By making a note of customer details like their age, gender, hobbies, income, needs, etc., organizations can develop a comprehensive customer database. Based on this information and a systematic analysis, the management will be able to identify and attract its target segment and redefine its service offerings to suit their needs.

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<sup>4</sup> Marcella De Simone, "Special Needs: A Large 'Niche' Market with Personal Appeal," *National Underwriter (Life & Health/Financial Services Edition)*, October 6, 2003.

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### **Determining the service characteristics**

The perception of the service offered by the same service provider may vary from one customer to another. To understand the basis for such variations, service providers should basically understand the characteristics of services. These characteristics determine the quality of and perception about a service offering and its delivery.

The interaction between the service provider and the customer can be physical, mental or emotional and this has an impact on the customer. The location of service delivery, the time taken for service consumption, the technology used, the degree of flexibility and complexity involved, all affect the service offering. The proficiency of the service provider in case of special professional services like medical or legal, the behavior of the service personnel and the number of customers serviced at a time also affect the service offering and its delivery. Therefore, organizations have to focus on all these service characteristics if they have to offer the right service to the right target segment.

### **Developing customer profile**

When a service provider has defined the service he offers and determined the service characteristics, his next step is to collect as much information as possible about the customers. Based on this information, the organization can identify those customers with similar characteristics and group them as a different segment. The organization has to prepare a customer profile for each segment so as to serve customers better.

While developing a profile of customers, their preferences and expectations, social norms and habits, their attitudes, values and beliefs, should all be taken into consideration. This will help the management understand their target segment better and serve them better.

### **Understanding customer's perception of the service provider**

Just as a service provider develops customer profiles, customers also try to develop a profile of service providers at an informal level. As the customer interacts with front office personnel to obtain some information or place the order for a service, he begins to evaluate the service offered by the service provider. Based on these evaluations, customers form their opinion about the service provider.

Customers form their opinion on the service provider and his service, based on the objective of the service, their own need for the service and its importance, and the outcome of the service. They also take into consideration their perceived risk and the relative cost and value of the service to evaluate it. These opinions eventually define the perception of the service and the service provider in the customers' minds.

## **Stage 2: Set Customer Service Standards**

Service profiles developed by customers can be used by service providers to understand customers' expectations and establish customer service standards based on that understanding. The service standards should be clear, brief, achievable and measurable. By establishing service standards, service providers will be able to

- provide direction to their employees to serve the customers better
- handle employee expectations as the standards are pre-determined
- set the ground for recruiting the right people, training them and rewarding them
- bring in uniformity and consistency in the organization

Singapore Airlines is an example of one such service organization that has high customer service standards (Refer Exhibit 20.2).

### Exhibit 20.2

#### Customer Service at Singapore Airlines

Singapore Airlines (SIA) is known for its excellent customer service standards. Over the years, SIA has systematically developed quality standards to improve its ground service. Every aspect of ground service such as how many times the reservation phone rang before being answered or how long customers had to wait to check in, is monitored carefully. SIA uses every opportunity to improve its customer service on ground, by using improved technology.

Check-in services are also very flexible. Passengers can check in two hours before the departure time of the flight. They can also check in through fax and telephone, 48 hours before the flight's departure. Internet check-in was introduced in November 1996 to make the check-in process even more convenient. Online services provide passengers with information on flight status and schedules. These services also help in tracing lost baggage.

The airline introduced electronic ticketing in October 1997. Credit card holders can purchase electronic tickets, thus eliminating the danger of the ticket being lost or misplaced. Their credit card numbers are stored in a system and a receipt with the bill and other traveling details is sent to them through fax or e-mail. The boarding pass is issued on presenting the credit card and the passport at the check-in counter.

SIA's in-flight service is also of high standard. The seats are designed to be comfortable and can be converted into a complete bed. The airline also provides mattresses, duvets and pillows, sleeper suits and toiletry kits for a comfortable journey. Writing facilities are also provided, with a pen, a writing pad, envelopes and postcards for writing. There are individual video screens for passengers of each class and the programs include 22 video channels along with 12 audio channels, 10 games and real-time text-news that are updated every hour. Passengers are also provided with in-seat telephones which can be used to make calls anywhere in the world. SIA has an International Culinary Panel of chefs, who design special, attractive dishes.

Though its competitors have come up with similar facilities of in-flight food, the service minded attitude with which SIA's staff serve the passengers has made it difficult for others to compete with it. In one instance, a passenger did not take a meal containing some pork mixture, the stewardess was sincerely upset, and offered him cookies and crackers. In another case, a Chinese family which boarded the flight did not like the variety of dishes offered to them and asked for noodles. From the next flight, SIA began to keep instant noodles apart from other dishes.

In international air routes, passengers' luggage is checked at every major airport where the flight halts. Passengers on SIA do not have to get the luggage down and get it checked by the customs. The staff take care of this checking.

*Source: Sapna and Sanjib Dutta, "Customer service at Singapore Airlines" ICMR.*

There are two major dimensions of customer service – procedural dimension and personal dimension, which need to be standardized.

#### **Standards in procedural dimension of customer service**

Procedural dimension deals with the service delivery systems and is rational and systematic in nature. It involves the time taken for service delivery, the flow of different service components in terms of their coordination and the flexibility offered. It also involves anticipating customer needs, maintaining effective communication with the customers, establishing customer feedback systems and effective supervision and organization.

#### **Standards in personal dimension of customer service**

The personal dimension of customer service is the human side of the offering. It often involves customer emotions and perceptions and is, therefore, unpredictable in nature. It involves the appearance and body language of the service personnel, their tone of

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voice, their tact and selling skills and also their attentiveness and involvement in helping the customer make the right choice. This dimension also involves the ambience and atmosphere of service delivery.

### Setting the standards in stone

As discussed earlier, customer service standards should be clear, brief, achievable and measurable. They should be communicated across the organization and every employee of the organization should understand and follow these standards of service. For example, if a company specifies timeliness as one of its customer service standards, it should be stated in clear terms. Domino's Pizza for example, promises a home delivery within 20 minutes of the customer placing the order. So, its employees know that they have to deliver the pizza within that time limit. This is quite different from delivering 'quick service,' which is a very ambiguous standard of timeliness. Let us look at some other examples (Refer Table 20.1):

**Table 20.1 Writing Customer Service Standards**

Customer service standard	Ambiguous	Unambiguous
Anticipation	Service personnel should think ahead of customers	Service personnel should refill the mini-bars in hotel room without waiting for the customer to ask for them.
Appearance	Employees should look pleasant	Employees should be dressed in white shirts and black trousers, wear a tie, black shoes (polished) and wear a professional smile.
Attitude	Employees should be customer-friendly	When a customer makes a query, the employees should answer them patiently and to the complete satisfaction of the customer.
Customer feedback	Employees should listen to customers	If a customer gives a suggestion, the customer service manager should consult other managers, discuss the possibility of its implementation and give feedback to the customer.

To have an effective implementation of customer service standards, the following are necessary.

- The standards must be set in accordance with the organization's goals and objectives.
- Before determining the standards, the management should discuss them with employees and also with customers if possible, and solicit their opinions and suggestions.
- The standards should be communicated to all the employees at all levels in the organization.
- The standards should be revised from time to time to ensure that they are in tune with the changes in the organization and the external environment.

## Developing and Managing the Customer-Service Function

### Stage 3: Encourage Team Work and Customer-Orientation among Employees

Customer-orientation and team work among all the service personnel are essential for organizations to serve their customers effectively. The management can achieve standards of excellence in customer service by following these steps:

- **Identify and analyze all the jobs in the organization that deal with customer service function:** The management of a service organization needs to first identify all the job positions that involve direct or indirect interaction with customers or support the front-line service personnel in delivering the service. For each of these positions, the management should conduct a job analysis and develop the job description and job specification. This will help the management finalize the tasks and duties of each position and also identify the competencies required to perform each job effectively.
- **Recruit right candidates for the jobs:** The management then needs to screen the applicants for various positions carefully, to select the best candidate for each job. The selection should be based on the job description and specification and the suitability of the candidate. The management should also take into consideration the organizational culture and analyze if the candidate will fit in with that culture. Recruiting the right service personnel is one of the most important steps in delivering quality customer service.
- **Train and develop the job incumbents:** Training should be administered to new candidates for a few days or weeks before they actually start working and interacting with the customers. This will help the incumbents understand what they are expected to do on the job and then prepare themselves to face the challenges. The candidates should be assessed after the training to check if they are equipped to meet the customer service standards. The management should periodically train its employees to help them develop their skills to match the changing customer needs and new technological developments.
- **Provide teams with able leaders:** Teams play a crucial role in delivering quality service to customers. For teams to thrive and exceed the expectations of customers, they should be led by able and competent leaders. The management should, therefore, take special care in selecting team leaders. It should also strive to develop good leaders from among its employees by nurturing their leadership skills.
- **Cultivate the right organizational culture:** Employees are the internal customers of any organization. The management should involve employees in decision-making and empower them to take decisions on their own. This will come in handy especially in situations where the quality of customer-service may suffer in the absence of such freedom and authority. When the management is committed to serving its internal customers and addresses their needs and wants, they will be motivated to serve customers with a high level of commitment.

### Stage 4: Establish Control Systems

Apart from understanding the customers, establishing superior customer-service standards, and developing customer-orientation and team spirit among employees, the management should also establish proper control systems to ensure that employees meet the service standards and deliver the expected quality of service to customers. The control systems can be in the form of feedback from employees and customers or a formal service audit system to evaluate the performance of the organization.

The feedback forms should be simple and easily available to customers. This will encourage customers to express their opinions and suggestions for service improvement. Employees should also be encouraged to give feedback to the

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management on service matters and the latter should value their feedback. In a formal service audit system, the management continuously monitors the service functions and compares the actual outcome (service quality) with the expected outcome. Any deviation will be traced to the factors leading to the deviation and an appropriate strategy will be adopted to eliminate those factors from the system. This will help the management control the damage and restore the service standards.

### Exhibit 20.3

#### Supplementary Services Offered by Jet Airways

Jet Airways attempts to enhance customer service by offering the following supplementary services:

- It provides gifts to children aged between two and twelve traveling on its flights. They can be toys, games, etc., which keep them engaged during the journey so that they can entertain themselves and not irritate parents and other travelers.
- It also offers special meals for children if parents make a request for it while booking tickets.
- Cabin crew assist parents in changing nappies of kids.
- If travelers inform reservation staff while booking tickets that a physically challenged person will be traveling on the ticket and make a request for assistance, the customer service staff arrange for a wheel chair and an attendant who will help the traveler to board and alight the flight.
- Customer service staff take care of children aged between 5 and 12 traveling on flight unaccompanied, provided parents make a request for the service while booking the ticket. During the flight, the senior Flight Steward (SFS) takes care of the child and after reaching the destination, arrival staff takes charge of the child. They hand the child over to the person who comes to receive him/her only after verifying his/her identity.
- Jet Airways compensates any loss or damage caused to the traveler's baggage provided he reports the loss to the customer service staff before leaving the airport.

*Adapted from [www.jetairways.com](http://www.jetairways.com)*

## Stage 5: Prevent Problems Rather than Fixing Them

The management should concentrate on preventing problems rather than trying to fix them when they occur. When a problem occurs and a customer service team successfully resolves it, the whole process should be recorded and maintained for future reference. This will help the organization prevent such problems in the future and also speed up its service recovery system. Further, teams should be encouraged to identify problem areas and come up with possible ways of preventing or handling the problems. The best suggestions can be adopted by the management after a little experimentation and analysis. Employees can succeed in proactively solving service problems encountered in the course of customer service, only when they seek to understand the actual needs and expectations of the customers. Thus, the customer-service management cycle once again moves on to the first stage of understanding customers.

## OFFERING SUPPLEMENTARY SERVICES IN ADDITION TO CORE SERVICE

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An organization can enhance its customer service by offering supplementary services in addition to the core service (Refer to Exhibit 20.3). For example, the core service of a bank is to accept money deposited by the people and return it at the time of maturity



## Developing and Managing the Customer-Service Function

with interest or to allow them to withdraw it when they need. However, a bank can enhance its services by offering some supplementary services like updating passbooks, offering debit cards and ATM services, offering Internet and phone banking facilities, offering demand drafts and travel check facilities, answering customer queries, etc.

The importance of supplementary services in adding value to the core service has been discussed in detail in the last chapter of this book.

### ENHANCING CUSTOMER-SERVICE THROUGH IMPROVED SERVICE DELIVERY PROCESS

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The characteristics of service and the factors that determine the quality of service differ from one industry to another. For example, the factors that determine the quality of an airline service are the take-off and arrival times, the behavior of the check-in and in-flight attendants, etc. A passenger wouldn't expect a wide variety of dishes to be served during the flight. However, the same person would expect a wide range of dishes to choose from when he visits a restaurant. Even within the same flight, the level of service delivered to the economy class travelers differs from that delivered to business class travelers. Therefore, an organization attempting to enhance its customer service should understand the factors that determine and influence the service delivery.

#### Factors Influencing Service Delivery

The various aspects of a service delivery process that influence the customer service function of an organization are discussed below:

- **Who sells the service?** In some service industries like insurance, travel and tourism, intermediaries play a major role in taking the service to the customers. Businesses in these industries depend on intermediaries because they have a wider reach and can, therefore, take the service to more customers. In some cases, the intermediaries will in fact, be in a position to offer higher quality customer-service at lower cost, than the actual service providers. Many organizations, therefore, outsource the customer-contact function to firms specializing in that function. For example, a credit card marketer may outsource the customer-contact function to a BPO or an agency that specializes in marketing credit cards. In some industries like the retail industry and professional services like the medical services, there is no scope or role for intermediaries. Customers go directly to the service provider to hire the desired service.
- **Do service personnel need to interact with the customer often?** In services like the railways, telecommunications, mail delivery etc., the interaction of the service provider with the customer is limited. The service process can be enhanced by improving service delivery processes using technology and management control systems. In service organizations like banks, hotels and airlines, service personnel regularly come in direct contact with customers. In this case, as the service personnel deliver service in the presence of customers, it becomes difficult for them to rectify a mistake without it being noticed by the customer. Therefore, recruiting the right people, training them and constantly enforcing the organization's values and commitment to customer service are the basic steps for a service provider to develop and enhance customer-service.
- **Who hires the service?** A service organization can have both individuals and organizations among its customers. When an organization buys a service, it buys in bulk, when compared to individual customers. For example, an organization may take membership of a particular club for its 100 executives. The service

### Exhibit 20.4

#### Blue Dart's Services

Blue Dart is South Asia's leading courier, air express and logistics company. It allows its customers to obtain information from its website regarding the transportation services it offers. Customers can, for example, find out the time taken for their documents to reach the desired destination and the price they have to pay for it. Customers can also view the closest pick-up point to their area. They can also track the shipping status of their documents/products using the reference number they obtain from Blue Dart staff after they formally register the item of shipment in their records. Customers can track the status for both domestic and international shipments. If they have shipped more than one item, Blue Dart allows them to track the status of all their shipments simultaneously. Blue Dart also allows customers to download proof of delivery like consignee's signature and comments and delivery chalangans within 48 hours of delivery. Upon a customer's request, Blue Dart sends a message as soon as the shipment is delivered.

*Adapted from [www.bluedart.com](http://www.bluedart.com)*

provider has to deliver the same quality of service to all the executives. Organizations also buy a service more frequently when compared to individual customers. For example, a corporate may require its executives to travel frequently to various cities on official duty. Therefore, it may use the services of an airline, a hotel and a car rental firm frequently and avail of discounts. In case of corporate customers, the service provider interacts not only with the customer who actually uses the services but also with the organization that hires them.

- **How long does the service delivery take?** Some services end with one interaction between the service provider and the customer while some services take several interactions. For example, if a customer visits a retail store and picks up some products, the service is complete when the customer leaves the store after the purchase. However, when a person goes to a health club and hires its services for some ailment or problem of his, he may be asked to visit the club for 10-12 sittings. Similarly, an IT firm may take several weeks to install a certain system in a client's organization. In situations where the services take a longer time for completion, the demand for information from customers increases. The service provider can enhance customer-service by providing up-to-date information in a simple format for customers (Refer to Exhibit 20.4). For example, many organizations provide a list of questions and answers under FAQs (frequently asked questions) on their websites, so that customers who have similar queries can obtain answers to their questions immediately. In the past, customers had to send the query to a customer service representative and wait for the reply.
- **How flexible is the capacity?** Some services can be provided to several customers at the same time, whereas some services require customers to wait for their turn. For example, a hotel with 50 rooms can accommodate 50 customers simultaneously. Customers can avoid waiting at the reception to book a room by making a reservation in advance. But if a person needs to submit his application for a P.G. program personally at the counter provided in the college for the purpose, he has to stand in the queue till his turn comes. Similarly, to board a bus, train or a flight, passengers have to stand in a queue so that every one can get in one after the other and occupy their reserved seats. In beauty parlors and hospitals too, customers need to wait for their turn. However, in reputed parlors and hospitals, service providers estimate the time taken to serve each customer and accordingly allocate time slots to customers, so as to minimize their waiting time (Refer to Exhibit 20.5).

### Exhibit 20.5

#### Efforts by Service Providers to Reduce Queues

In 1994, Tesco, a UK based global retail chain, launched a scheme called '*One in Front*' to reduce the time customers had to spend waiting at check-out counters. Under this scheme, Tesco store personnel ensured that if there was more than one person at any counter, another counter would be opened for the person second in line. This way, no customer would have to wait at the check-out counters.

Source: ICMR

- ***How flexible is the service?*** Some services lend themselves to high customization while some services cannot be customized beyond a point. For example, a fitness center suggests different exercises and different diets to different people depending on their individual requirements like gaining weight, losing weight, toning muscles, etc. In an educational institute, a student can choose from among the various courses offered by it. But to obtain a certificate in a certain professional course (say, aeronautical engineering), a student has to study all the subjects specified for that particular course and pass in all of them. He cannot study one subject from one course (aeronautical engineering) and another from another course (say, geology) and obtain the desired certificate. Moreover, all the students who study the same course attend the same class and the professors deliver the same lecture to the entire class. Individualized lectures are not delivered to each student. There will not be differences in the level of service offered to individual customers.
- ***How frequently is the service purchased?*** Some services are purchased more frequently and the profitability of the service provider in such cases depends on the repeat purchases made by the regular customers. For example, restaurants, hotels, airlines, credit cards and retail outlets come under this category of services. Organizations offering these services need to maintain a database of regular customers and their purchase patterns. When regular customers enter the organization for service, service personnel should give them special treatment and attention and enhance their overall service experience at the place. If a regular customer uses an online channel for hiring or consuming a service, the information system should immediately recognize him, accept his orders and process his transactions without a need for the customer to enter all the personal details each time he uses the organization's service.
- ***How complex is the service?*** Some services are complex and it may take a long time for customers to learn to use them effectively. Customers may initially face some problems and may require the help of the service personnel in resolving them. By training the service personnel to respond to customer queries and to resolve their problems by extending all the necessary support, service providers can enhance delivery of the service.
- ***What is the extent of risk involved?*** In some services, failure to deliver the service as promised may result in inconvenience, monetary loss or other problems to customers. For example, if a courier company fails to deliver an important office document to a customer's client, it might lead to major problems for the customer, as well as his client. Service organizations should have robust infrastructure and information system in place to deliver the service as promised. If it fails to deliver the service in the first instance, service personnel should initiate service recovery and resolve the problem at the earliest. When a service provider fails to deliver the service, the frustrated customers may react angrily and behave aggressively with the service personnel. The service personnel should, therefore, be trained to maintain their patience and deal with the problem tactfully.

## STEPS TO IMPLEMENT AN EFFECTIVE CUSTOMER-SERVICE PROGRAM

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

- **Place the right person in the right job:** The management of a service organization should conduct comprehensive recruitment tests and select the best candidate for each job. Different jobs require different skills like technical skills, interpersonal skills, communication skills, etc. Some jobs require a combination of some of these skills. Organizational personnel who interact with the customers directly should be able to withstand the work pressure and control their emotions. So, the management should use some personality tests for assessing the candidates and selecting the right people.
- **Administer training programs:** The management should try to identify the training needs of employees and conduct training programs periodically to help them hone their skills and excel in customer service.
- **Serve information needs of customers:** Customers also need to be kept informed of any changes made in the service delivery system. An informed customer will know better how to use the service quickly and effectively. This will help avoid delays at the service site and reduce inconvenience to customers. For example, Electronic Voting Machines were used for elections (2004) in India. Citizens were educated through television and live demonstrations in various constituencies in advance, so that they could cast their votes without any problems on the day of voting.
- **Resolve problems quickly and talk pleasantly:** Employees should be attentive while interacting with customers. When a customer reports a problem, the front office personnel should immediately take the necessary action. In case of minor problems, they should initiate corrective action immediately and in case of major problems, they should take up the case with the manager concerned. They should also be tactful in pacifying irate customers. Peaceful customers can be more easily dealt with, than aggressive and unpleasant one. Therefore, employees will be subjected to less stress and can respond to more customers if they help their customers calm down. However, employees should also remember that sweet talk alone cannot please a customer for long, and that his problem needs to be solved at the earliest.
- **Standardize service delivery mechanisms:** A service delivery process can be split up into a set of steps that are carried out in a particular sequence to deliver the desired service. Each step should be evaluated to identify the possibility for standardization. All such steps should be standardized and the employees should be trained to carry out the steps quickly in a systematic way and deliver satisfactory service to customers.
- **Fix reasonable prices:** A service provider has to price his services reasonably. He should compare the quality and level of the services he offers with those of competitors in the industry and then determine the price of his service. The service provider should constantly monitor the external environment, the existing demand and supply for his services and make changes in the price accordingly.
- **Outsource some activities:** Service providers should identify the activities that are not an integral part of the core service. If they find that these activities can be performed by external organizations at a low cost without affecting the quality of customer service, then such non-core activities should be outsourced.

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- ***Attempt to prevent problems:*** Service providers should observe the service delivery mechanism and identify the problem areas. They should then take the steps necessary to eliminate the factors leading to problems and enhance the customer-service.
- ***Evaluate employee performance:*** The performance of service personnel should be appraised periodically and the feedback should be discussed with the concerned employee. The achievements of an employee should be rewarded. At the same time, if there are any areas for improvement, his superior should communicate them to the employee and help him upgrade his performance.

### SUMMARY

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Customer service may be defined as a process in which an organization consistently offers what the customer wants. To improve customer service, organizations should divide the existing service into different service activities and set service standards for each activity, conduct customer surveys periodically, provide the necessary infrastructure and advanced technology, monitor changes in the environment and introduce changes in the service delivery process of the organization. Today's organizations are leveraging technology extensively to improve their customer service. Improving customer service is a never ending process for an organization and is represented in the form of the customer-service management cycle. The various phases of this cycle include understanding customers, establishing service standards, encouraging team work and customer orientation, establishing control systems and preventing problems rather than fixing them. Many organizations offer several supplementary services in addition to their core service, to enhance the overall experience of the customer. Organizations can also enhance customer service by improving the service delivery process. Improvement of the service delivery process of an organization depends on various factors like who sells the service, do service personnel need to interact with the customer often, who hires the service, how long the service takes, how flexible the service provider's capacity is, how frequently the service is purchased, how complex the service is, and what is the extent of risk involved? The steps that have to be followed by organizations to implement an effective customer service program in the organization include placing the right person in the right job, administering training programs, serving the information needs of customers, resolving problems quickly, standardizing service delivery mechanisms, fixing reasonable prices for services, outsourcing some activities, attempting to prevent problems and evaluating employee performance.

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## **Chapter 21**

# **Marketing Planning for Services**

**In this chapter we will discuss:**

- Marketing Planning Process
- Strategic Context
- Situation Review
- Marketing Strategy Formulation
- Resource Allocation and Detailed Planning

## Services Marketing

*"If you don't know where you're going, it doesn't matter which way you go."*

- Lewis Carroll through the words of the Cheshire Cat in Alice in Wonderland

Most firms have ambitious goals and objectives, both short-term and long-term. But a good majority of them fail to achieve these goals because they lack a sound marketing plan to reach the right customer at the right time with the right product/service. Even if some of them do manage to develop a plan, it is often a short-term plan dominated by financial goals like increase in profitability or increase in sales volumes. Moreover, the management ignores the basic fact that all plans should be aligned with the corporate mission and vision of the organization. Therefore, these short-term plans sometimes seek to achieve goals and objectives that actually contradict the mission and vision of the organization. This leads to confusion, chaos and the ultimate downfall of the organization as the business loses direction. On the other hand, successful firms follow a systematic method to develop and implement their marketing plans. They do not lose track of their mission and vision even for a moment and are, in fact, guided by them in setting their long-term objectives. This helps them formulate strategies that contribute not only to the short-term objectives but also to the organization's long-term goals. In this chapter, we will discuss the systematic marketing planning process that should be followed by organizations.

## MARKETING PLANNING PROCESS

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Marketing planning is defined as the process by which an organization sets goals and formulates strategic plans for achieving them. To prepare a sound marketing plan, organizations have to analyze both the internal and the external environment, make some smart assumptions regarding the future and perhaps take some difficult decisions. According to McDonald<sup>1</sup>, marketing planning consists primarily of ten steps as explained in Figure 21.1. These 10 steps have been grouped under four headings by Payne<sup>2</sup> - establishing the strategic context, reviewing the situation, formulating the marketing strategy and allocating adequate resources. Continuous monitoring and review are also part of successful planning.

### Establishing Strategic Context

This is the first phase of marketing planning and in this phase, the organization defines its mission statement and the corporate objectives. Marketing strategies should be in alignment with the mission and objectives of the organization and the plans should help in achieving them.

#### The mission statement

The mission statement of an organization defines the purpose of its existence and its philosophy and provides direction to the management. An ideal mission statement is brief and yet covers the broader aspects of the organization. When it is communicated to employees, it inspires them and motivates them to accomplish it. For example, a health care center may state that its mission is to ensure that everybody in the community stays healthy. Walt Disney states that its mission is to make people happy. 3M states that its mission is to solve unsolved problems innovatively.

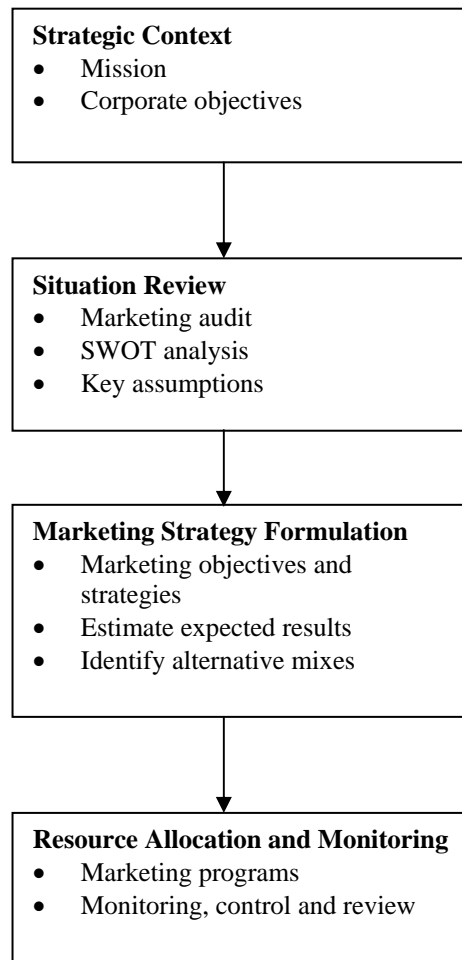
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<sup>1</sup> Malcom McDonald, *Marketing Plans – How to prepare them, How to Use Them*, 4<sup>th</sup> edition. UK : Butterworth Heinemann and India: Viva Books Private Limited, 2000.

<sup>2</sup> Adrian Payne. *The Essence of Services Marketing*. Delhi: Prentice-Hall India, 1993.



**Figure 21.1: The Marketing Planning Process**



The mission statement should help an organization identify opportunities and leverage its competencies to exploit them fully. The mission statement appears prominently in the annual reports of the company, home page of the organizations' websites, internal notice boards, conference room, etc. This helps in constantly reminding employees of the organization's purpose of existence and their duties and responsibilities in helping the organization achieve it. It also guides the management in making critical business decisions and developing strategic plans.

### **Corporate goals and objectives**

After finalizing the mission statement, the organization should formulate its corporate goals and objectives. These objectives should be in alignment with the corporate mission and should, in fact, act as scales to measure the organization's progress towards achieving its mission. The objectives should be established in different management areas like customer service, innovation, quality, profitability, employee performance, social responsibility, revenues, market share etc.,. (Refer to Exhibit 21.1-HP objectives). Establishing clear and quantifiable corporate goals enables the management to set clear and quantifiable functional goals too (finance, marketing, production, etc.). This helps the management monitor the performance of the organization closely, and take corrective steps wherever necessary.

### Exhibit 21.1

#### Corporate Objectives of HP

The corporate objectives of HP that guide the management in decision-making and determine the way they conduct business are given below:

##### **Customer loyalty**

To provide products, services and solutions of the highest quality and deliver more value to our customers that earns their respect and loyalty.

##### **Profit**

To achieve sufficient profit to finance our company growth, create value for our shareholders and provide the resources we need to achieve our other corporate objectives.

##### **Market Leadership**

To grow by continually providing useful and significant products, services and solutions to markets we already serve—and to expand into new areas that build on our technologies, competencies and customer interests.

##### **Growth**

To view change in the market as an opportunity to grow; to use our profits and our ability to develop and produce innovative products, services and solutions that satisfy emerging customer needs.

##### **Employee Commitment**

To help HP employees share the company's success that they make possible; to provide people with employment opportunities based on performance; to create with them a safe, exciting and inclusive work environment that values their diversity and recognizes individual contributions; and to help them gain a sense of satisfaction and accomplishment from their work.

##### **Leadership Capability**

To develop leaders at every level, who are accountable for achieving business results and exemplifying our values.

##### **Global Citizenship**

To be an economic, intellectual and social asset to each country and community in which we do business.

*Source: <http://www.hp.com/hpinfo/abouthp/corobj.html>*

## Situation Review

After establishing the mission and corporate goals, the management should next analyze the internal and external environments of the organization. The external environmental forces include competition in the market, social and economic conditions and, political and legal factors. These are largely beyond the control of management. However, analysis of this environment helps the management in formulating strategies and manipulating the internal environment suitably to deal with the challenges posed by the external environment. The internal environment includes the strengths and weaknesses of the organization, its fund position, the labor-management relations, etc. The different aspects of environment analysis are discussed below.

### **Marketing audit**

The systematic process of reviewing and evaluating a company's operations is called audit. Hence, marketing audit can be defined as the process of reviewing and evaluating the marketing operations of an organization. It includes an analysis of four important factors – market conditions, organizational conditions, environmental conditions and competition.

## Marketing Planning for Services

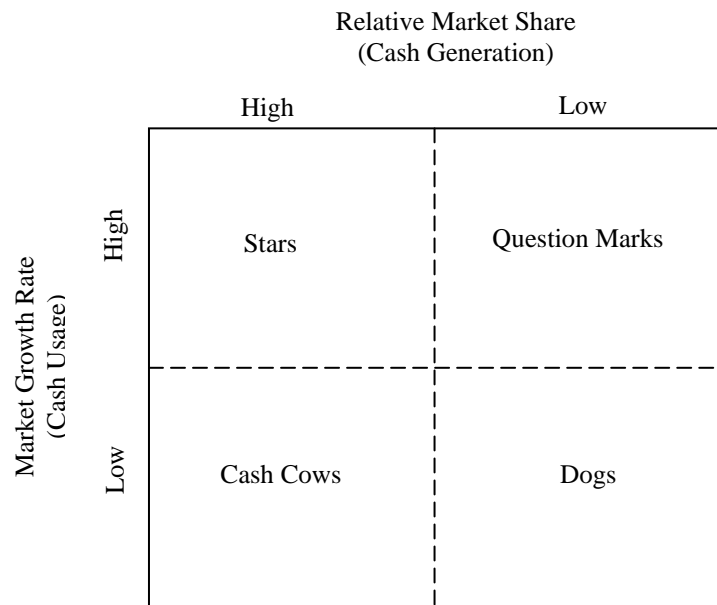
Marketing audit enables the management to take appropriate action to solve a particular problem. Organizations face many problems like reduction in market share, underutilized capacity and decline in profitability, which need to be tackled immediately by the management. The management, therefore, attempts to resolve these problems by cutting down prices, restructuring departments, laying off employees or by discontinuing some products and services. But quite often, it so happens that these apparent problems are only symptoms of the underlying reasons for the problems. Marketing audit helps the management identify the root causes of existing problems. This in turn helps the management take necessary action to eliminate them.

Internal marketing audit helps the management assess the strength of the organization vis-à-vis the resources available with it and with the resources available with competitors. External audit on the other hand, helps the management evaluate the growth aspects of the markets served by the organization.

Ideally, marketing audit should be carried out every year, before the marketing plan is formulated. But hiring external auditors each time is expensive and is, perhaps, not necessary either. Instead, internal managers can be trained in the process of auditing and assigned the responsibility.

The position and strategy of competitors, attractiveness of the market and, life cycle stage of the service need to be considered by the service provider before the marketing strategy is formulated. Techniques like the Boston Consulting Group Matrix, Multiple Factor Portfolio Model and Life Cycle Analysis are used to analyze the market conditions in a logical and systematic manner. Life cycle analysis helps the service provider identify whether the service is in the initial stage, growth stage, maturity stage or decline stage. An understanding of this helps him formulate the right strategy to survive and thrive in the market. For example, the event management market in India is still in the initial stages of its life cycle, therefore, marketers have immense opportunities, but need to create awareness among customers about their service offering.

**Figure 21.2: BCG Matrix**



Source: Philip Kotler. *Marketing Management. Tenth Edition. Delhi: Prentice Hall of India, 1999.*

## Services Marketing

Tools like the BCG matrix (Refer to Figure 21.2) help the marketer analyze the service vis-à-vis the market situation. For example, if the market is growing and the service provider still has a low market share, then he should make plans to increase his market share. If the service has a low market share in a slow market, then he might do well to change his service offering or get out of the market. Thus, marketers can formulate suitable strategies. For example, the IT services market in India is fast approaching maturity. A company like Wipro Technologies with a good market share, is thus, a cash cow. It should, therefore, try to milk the business to extract profits and invest as little as possible in it.

The multifactor portfolio model is similar to the BCG matrix, but is more complex and comprehensive. Refer to Table 21.1 for the model.

**Table 21.2: Multiple Factor Portfolio Matrix**

<b>Market Attractiveness</b>	<b>High</b>	<b>Protect Position</b> <ul style="list-style-type: none"> <li>Invest to grow at maximum rate</li> <li>Concentrate effort on maintaining strength</li> </ul>	<b>Invest to Build</b> <ul style="list-style-type: none"> <li>Challenge for Leadership</li> <li>Build Selectively on strengths</li> </ul>	<b>Build Selectively</b> <ul style="list-style-type: none"> <li>Specialize around limited strengths</li> <li>Seek ways to overcome weaknesses</li> </ul>
	<b>Medium</b>	<b>Build Selectively</b> <ul style="list-style-type: none"> <li>Invest heavily in most attractive segments</li> <li>Build up ability to counter competition</li> </ul>	<b>Selectivity/Manage for earnings</b> <ul style="list-style-type: none"> <li>Protect existing program</li> <li>Concentrate investments on segments where profitability is good and risk is low</li> </ul>	<b>Limited Expansion for Harvest</b> <ul style="list-style-type: none"> <li>Look for ways to expand without high risk</li> <li>Minimize investment and rationalize operations</li> </ul>
	<b>Low</b>	<b>Protect and refocus</b> <ul style="list-style-type: none"> <li>Manage for current earnings</li> <li>Concentrate on attractive segments</li> </ul>	<b>Manage for earnings</b> <ul style="list-style-type: none"> <li>Protect position in most profitable segments</li> <li>Upgrade services</li> </ul>	<b>Divest</b> <ul style="list-style-type: none"> <li>Sell at time that will maximize cash value</li> <li>Cut fixed costs and avoid investments</li> </ul>
		<b>High</b>	<b>Medium</b>	<b>Low</b>
	<b>Relative Business Strength</b>			

Source: Malcom McDonald, *Marketing Plans – How to prepare them, How to Use Them*, 4<sup>th</sup> edition. UK : Butterworth Heinemann and India: Viva Books Private Limited, 2000.

### Analysis of strengths and weaknesses

Service providers should use the information from marketing audit, to evaluate their strengths and weaknesses and identify the threats and opportunities in the market. SWOT analysis enables a service provider to identify various internal and external forces that have an impact on business and frame strategies to employ them for improved results.

To conduct SWOT analysis, the management should first assess their inner strengths and weaknesses in an unbiased and objective manner. They should identify their areas of strength in terms of customer service, good returns, employee support etc. They should also identify their weaknesses based on the feedback from customers and employees and by comparing themselves with competitors in the market.

## Marketing Planning for Services

The management should also identify the areas where it has been doing poorly compared to competitors and needs improvement. Say Café Coffee Day receives a feedback from customers that it needs to improve its customer service and reduce the waiting time. The management of the café should take the feedback positively and think of ways to improve the service instead of trying to justify the delay or ignoring customer comments.

The management should screen the external environment for implicit opportunities and threats. They should attempt to identify the emerging trends in the market, the growth patterns in different segments, advancements in technology, etc., and the opportunities offered by them. They should check the external environment for political and legal changes, obsolescence of technology or the birth of a particular product or service that may pose a threat to the business of their organization. They should also try to exploit emerging opportunities that competitors have overlooked and shield themselves from the possible threats using their strengths and overcoming their weaknesses. (Refer to Exhibit 21.2). For example, Café Coffee Day might see an opportunity in the growing spending power of the youth and a threat in the form of vending machines or competitors lowering their prices. The coffee chain should make the necessary strategic plans to tap the opportunity and tackle the threat.

At the end of the SWOT analysis, the organization should be able to map the future course of action to minimize weaknesses, enhance strengths, exploit opportunities and overcome threats.

### Assumptions

Organizations need to make some assumptions regarding a few key factors that influence the success of marketing efforts. These assumptions are essential for formulating an effective marketing strategy. They could be regarding the market interest rates, inflation rates, changes in demand or prices, government policies etc. Members of the management should discuss the various aspects involved and reach a consensus on the assumptions. Otherwise, it might so happen that one manager prepares a plan for his department based on the prediction that the demand for the service would increase by 10% and another prepares a plan believing that demand would go down by 20%. They should study the past and present trends and predict the demand in the future using statistical techniques rather than by depending on hunches. However, in some special cases, a smart analysis of the situation would be a better indicator than statistical results. Once the assumptions are agreed upon, the management should estimate their impact on the marketing efforts and make contingency plans if required.

## Marketing Strategy Formulation

This is the most important phase of the entire marketing planning process as the actual planning takes place here. The management attempts to formulate a marketing strategy that is aligned with the corporate objectives. This includes establishing marketing objectives and formulating strategies, estimating the expected results and identifying alternative strategies.

### Establishing marketing objectives

The marketing objectives of a service organization, or for that matter any organization, should be in alignment with the corporate objectives. Marketing objectives are statements that specify the goals to be achieved with respect to the market segments served by the organization. Suppose one of the corporate objectives of a service organization is to be the most affordable service provider. Then one of the marketing objectives should be to reduce marketing costs and increase market share. Marketing objectives for each segment are set in terms of sales volume, profits,

### Exhibit 21.2

#### Life Insurance Industry in China

Let us study the opportunities for and threats to a new entrant in the life insurance industry in China:

##### Opportunities

- The market for life insurance is growing at a rate of 40% per year. According to some estimates, the market will continue to grow at a rate of 15% to 25% per year over the next five years.
- More Chinese are working in the private sector which implies that they will not get their retirement funds from government. They will turn to insurance players for their post-retirement needs.
- People consider that life-insurance is a safe alternative to investment in stock markets.
- Market liberalization and social reforms are progressing at a fast pace in China.

##### Threats

- The language and culture of China is unique and foreign players find it difficult to understand it and domestic players have an upper hand over foreign players in this aspect
- Because of deceptive practices adopted by players in the past, foreign players have a tough time convincing Chinese customers of their reliability.
- Government regulation is high, and dictates the investment portfolio of life insurers.
- Customer acquisition rates are high. Life insurance agents are given huge commissions to motivate them.
- There is intense competition from both domestic and international players in the industry. Innovative insurance services are essential to obtain a market share.

##### Managerial Implications

Life insurance players entering China should

- Educate customers about the importance of insurance.
- Seek to differentiate their services from those of other players and improve customer service. The management should conduct periodical customer surveys and seek their opinions regarding the existing services and ask them for suggestions for improvement. By following the customer feedback, life insurers can significantly improve customer service.
- Apply Pareto's law, identify key customers and serve them to their satisfaction, up sell services and increase profitability.
- Continuously work to improve internal capabilities, make optimum utilization of resources available, keep track of competitors' moves and frame strategies that help the organization benefit in the long-term rather than benefiting the organization in the short term and jeopardizing its long-term interests.

*Adapted from Building Professionalism – The Next Step for Life Insurance in China," Boston Consulting Group, [http://www.bcg.com/publications/files/China\\_Excerpt\\_Mar04.p](http://www.bcg.com/publications/files/China_Excerpt_Mar04.p)*

market share, marketing costs, etc. However, for these objectives to be effective, they have to be set in a systematic manner. As a first step, the overall marketing objectives should be determined. They should be long-term oriented and should provide inspiration and motivation to the employees of the organization. For example, a broad marketing objective for a five-star hotel may be to achieve a 90% customer retention rate. Then the objectives with respect to key result areas should be set. Also, some short-term sub-objectives may be set up to support the broader long-term marketing objectives.

**Exhibit 21.3**

**Marketing Strategies of Tata Teleservices and Reliance Infocomm**

Tata established an ambitious target for its telecom services and designed an aggressive strategy to achieve it. For its fixed wireless services, Tata Teleservices Ltd. (TTSL) wanted to obtain 3.8 million subscribers from states like Gujarat, Maharashtra, Tamil Nadu, Karnataka, Delhi and Andhra Pradesh by 2007. TTSL has invested over Rs 1,000 crore in each state. TTSL wants its services to generate enough revenue so that operating costs without interest can be recovered by the second year, with interest by the fourth year, depreciation costs by sixth year and net profits by the eighth year.

But TTSL has to compete with Reliance Infocomm (Reliance) which has a significant market share in most markets. Reliance has allocated a budget of Rs 25,000 crore to be invested in telecom services by 2007. This will enable it to extend its services to 115 cities across India. TTSL is also planning to invest Rs 14,000 crore by 2007. Telecom services demand huge investment, involve high risk and yield slow returns. Instead of going in for an IPO to acquire additional capital, TTSL convinced VSNL to buy 26% stake in its telecom venture for 1,200 crore.

TTSL also launched cellular services division called Mobitel services. TTSL entered late into the mobile services industry when players like Bharti and Reliance were already well established and garnered significant number of subscribers. Prior to rolling out its mobile telecom services, TTSL launched a large scale advertising campaign. It released advertisements in newspapers, magazines, television and the Internet. It also put up hoardings at key locations across the cities and also used mobile media like buses. It entered into a partnership with departmental stores and supermarkets to promote its services. TTSL had its mobile services launched in each state by governors or ministers or other popular personalities so as to obtain maximum coverage by the media and attract the attention of potential customers. TTSL used the route of franchising for distributing its services. Each franchisee sets up an exclusive showroom called 'Indicom.' Customers can purchase handsets, activate them and make queries with the staff. TTSL hopes to win a market share with the help of quality infrastructure and services.

But its competitor Reliance is also an equally strong player and has its own strategies. Reliance sells cards and offers activation services through its own stores called 'Web World.' Reliance is planning to improve customers' overall experience by offering hot beverages and Internet browsing facility at Web World stores. Reliance has 15 lakh subscribers across the country.

With both TTSL and Reliance competing with each other with different marketing strategies, it remains to be seen who emerges as the winner in the end.

*Adapted from Tele, Reliance Info Chalk out retail strategy, Financial Express, July 1, 2003 and Radhika Dhawan, "Playing Catch-Up," Can late entrant Teleservices pull it off in the Wireless game, Businessworld, 17 May 2004.*

When developing marketing objectives, the management should ensure that the objectives are specific, measurable, achievable, relevant and time bound (Refer to Exhibit 21.3). The objectives should be achievable, but should make employees stretch their capabilities to achieve them within the given time.

**Developing means to achieve marketing objectives**

After setting marketing objectives, the management needs to specify the ways and means of achieving them. These ways and means constitute the marketing strategies. While marketing objectives primarily determine the different products and services to be offered to customers, targets to be achieved, etc., marketing strategy deals with pricing, promotion, distribution, packaging, etc., of the product, to achieve these objectives. Marketing strategy determines the methods to achieve the marketing objectives, resources that need to be (re)allocated to achieve them and the time limit within which they need to be achieved. It describes the way each element of the

## Services Marketing

marketing mix needs to be used to achieve the objectives. Marketing strategies should include plans to retain the existing customers and increase the business from them. They should also include appropriate strategies to attract potential customers from the market.

Some techniques like the Ansoff matrix, gap analysis and portfolio analysis can be used to check whether a particular marketing strategy is appropriate to achieve a particular marketing objective. For example, gap analysis is used to measure the difference between the actual goal that is set and the extent to which the goal is achievable. Say an organization aims for a 20% increase in profits in the next financial year, but a particular strategy may not help it to achieve more than a 5% increase. This will indicate a need for the management to adopt an alternative strategy to achieve the objective.

### Forecasting the outcome

Services cannot be stored for future consumption and use. The perishable nature of services emphasizes the importance for the service providers to forecast demand. Demand forecasting enables the service providers to avoid over capacity or under capacity and thus meet the demand in a cost effective manner. Various quantitative tools like regression analysis and extrapolation are used to forecast demand. Sometimes, customer surveys and market research also help predict future trends. If a service organization like an entertainment park or a marriage bureau is expected to experience heavy traffic of customers during specific periods of a year, it may need to employ more people during those periods to serve customers better. Some retail stores like West Side employ more staff during peak business periods to attend to customers better. However, it is not practically feasible to forecast demand with 100% accuracy, as it is influenced by several external factors like the number of competitors, the substitutes available, and the economic and social conditions. To reduce the uncertainty involved, some organizations make three types of demand forecasts - pessimistic, average and optimistic. They calculate the expected revenue in each case and depending on the market conditions from time to time, decide which demand forecast can be followed.

The marketing costs, operating expenses and overhead expenses that are to be incurred and the revenues expected from sales are estimated in all the three scenarios. If the strategy is not capable of delivering the expected outcome, an alternative strategy is chosen.

### Identifying the alternatives

Before implementing any marketing strategy, it should be tested for its ability to deliver the desired results. If the strategy seems to have any flaws, it should be withdrawn immediately, before it causes any damage. The management should also look for alternative strategies simultaneously. It should, in fact, evaluate a number of strategies before choosing one that will deliver better results under the given market conditions. Marketing managers should make the necessary changes in each element of the marketing mix and check whether it improves or adds value to the existing strategy. To evaluate a strategy, they should consider the expected level of demand, the marketing budget and revenues that have been forecast.

In the marketing strategy, managers should also accommodate plans to deal with contingencies like a sudden fall in demand, changes in economy, technology, etc. Sometimes, irrespective of the extensive planning and care taken in the implementation of a strategy, the actual outcome may deviate from the expected outcome. Managers should observe any such deviations from the expected results, investigate the reasons and take appropriate steps to avoid them in future.



### Resource Allocation and Detailed Planning

This is the last step in the marketing planning process after the strategies are formulated. The strategic marketing plan gives only a broad outline of the objectives, the strategies to be adopted and the resources to be allocated to achieve the objectives. However, the strategic marketing plan needs to be divided into short-term sub-plans or activities as discussed earlier. For each of these sub-plans, a detailed plan needs to be laid down which specifies the objectives, the time limit, the resources required and strategies etc., to achieve each sub-objective. Each sub-plan has to be executed carefully for the objectives of the strategic marketing plan to be realized.

### Implementing the marketing plan

To execute a plan effectively, the management should assign different responsibilities to the concerned departments and employees and arrange for the required funds and infrastructure to help them deliver their responsibilities. Also, the management should extend the support required by employees when they face any problems in carrying out the responsibilities assigned to them.

The management should conduct regular meetings with various teams working on the marketing activities. This will enable the management to keep track of the performance of the teams and also update the other teams regarding new developments. This might help the teams make any changes in their activity plan, if required. The management has a critical role to play in encouraging coordination among the teams. It should also estimate the amount of resources needed to implement the plan and allocate an adequate budget to each team to carry out the responsibilities entrusted to it. For example, say the promotion team realises that it needs more resources due to a competitor's strategy and the product development team has spare resources. Coordination and cooperation between the two teams would ensure smooth sailing for the company.

Some organizations adopt the easy way out by proposing a new marketing budget every year. They simply add or delete some funds from the previous year's budget and present it for the current financial year. This type of budget estimation fails to assess the exact requirements of the organization in the coming year and, therefore, fails to meet the requirements. Organizations should, therefore, do a thorough job to prepare budget estimates.

The finance department strives to curtail costs as far as possible and, therefore, in some cases, may decline to allocate the funds as requested. The marketing manager needs to convince the finance manager by explaining how he is justified in asking for the amount requested and how important it is for the company to have a good marketing plan implemented. Further, he needs to maintain constant communication with all the people associated with the implementation of the plan.

These people include his own team, employees from other functional teams, and even outsiders like dealers. The success of the marketing plan depends on the marketing manager's efforts to sell it to all those involved and win their commitment. He should also constantly update and adapt his plans to the changing market situation, by collecting information through marketing research.

### Monitoring, control and review

Constant monitoring, control and review of marketing plans is essential to ensure that the organization is heading in the right direction. But some small service organizations might lack the required infrastructure to monitor and control the implementation of marketing plans. If they do not maintain accurate records of sales, they cannot identify the service/services that are not contributing to profits and, therefore, cannot determine the right time to withdraw a service or introduce a new one. Also, they cannot evaluate the effectiveness of their promotional activity or any other activity of the marketing plan.

### **Exhibit 21.4 Starbucks and Information System**

Starbucks, the world's largest retailer and roaster of specialty coffee in the world, serves about 25 million customers per week. Starbucks found that first time visitors to its store and people on the move, found it difficult to locate the stores nearest to them. In 1999, Starbucks, therefore, offered a store locator service. The service was, however, on a website that was managed by a vendor. As a result, Starbucks did not have any control over it. The management could only see that the store locator service was being extensively used by its customers worldwide. Starbucks could not make any changes to the store locator service to make it more useful to its customers. It had to depend on the vendor each time it wanted to make a change. It took a long time for Starbucks to incorporate the desired change and the vendor charged it for the service.

Starbucks launched a community service campaign called "Make your Mark", and wanted to provide driving instructions to its customers through the store locator service site. But the vendor could not help it do so and set up another site for the service. Starbucks then wanted to add the list of different categories of its stores such as stores with wireless access and stores with drive-through windows and strategic partners' stores on the site. To add them, the vendor took a very long time and also charged Starbucks heavily. Starbucks then turned to Microsoft to obtain a better solution to its problem.

Microsoft, through its Microsoft Mappoint Web Service, enabled Starbucks to maintain the store locator service on its own website, starbucks.com. Starbucks included nine categories of stores in it and was free to update the information according to its requirement. While the previous vendor enabled Starbucks to list only the stores in North America, it could now include those in Europe, Asia and Latin America. Starbucks could also add all the stores of strategic partners. Starbucks allowed customers to locate a specific category of stores or any Starbucks store within a given radius. The customers could also obtain driving instructions and a route map. If Starbucks launched a new campaign, it would update its site in no time and provide driving instructions to customers. Because of the unreliable service offered by the previous vendor, customers had depended more on customer service representatives for driving instructions over the phone. Now that Starbucks offered quality service through the web, the number of phone calls came down drastically and staff was free to improve the service experience of customers. Starbucks was also able to record customer information for future use.

*Adapted from "Starbucks supports Corporate Goals with MapPoint Web Service,"*  
<[download.microsoft.com/download/e/7/8/e7878646-c2e8-4699-b59e-e092e9a74fb3/](http://download.microsoft.com/download/e/7/8/e7878646-c2e8-4699-b59e-e092e9a74fb3/)>

Most large service organizations collect information and prepare periodic reports for better monitoring. The reports generally include information on employee productivity, costs incurred on marketing activities including the overhead costs, change in market share, revenues, profits and return on investment, and the effectiveness of advertising, number and type of customer complaints, customer retention rate, etc. Many service organizations have started taking the help of information systems to ensure that up-to-date information reaches the concerned managers anywhere in the world, enabling them to act quickly and suitably. If an organization has an advanced information system but does not allow the management to make the desired changes, it indicates that there is a problem of integration. The management needs to take necessary steps to integrate the information system into their existing working system so as to avail of the desired flexibility (Refer to Exhibit 21.4 - Starbucks). This is because a system that allows the management to monitor and review but not lend itself to control reduces flexibility, increases confusion and leads to inaction.

If the management can obtain all the necessary information related to performance of marketing effort on time and the advanced systems allow them to quickly analyze the information available, it can immediately make the necessary changes in the marketing plan to ensure its complete success.

### SUMMARY

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The marketing planning process consists of four phases – strategic context, situation review, marketing strategy formulation, and resource allocation and monitoring, which, in turn, consist of 10 different steps. In the first phase, an organization has to establish the corporate mission and objectives. In the second phase, it has to conduct a marketing audit wherein the external and internal environments of the organization are studied. SWOT analysis is also conducted to evaluate the internal strengths and weaknesses of the organization and the opportunities and threats from the external environment. Apart from this, some key assumptions are also made, which form the basis for the marketing plan. In the third phase, the marketing objectives are established in alignment with the corporate objectives. Then the strategies to be adopted to achieve these objectives are designed. These strategies are evaluated for assessing the possible outcomes. If a particular strategy seems to have some lapses and is not capable of delivering the desired result, the management tries to design new strategies. In the fourth phase, the required resources are allocated for all the marketing teams and the marketing plan is implemented. As the plan is being implemented, managers continually monitor the situation and in case there is any deviation from the expected performance, they take steps to correct it. This periodical review of the situation ensures the implementation of a successful marketing plan.

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## **Chapter 22**

# **Service Quality**

**In this chapter we will discuss:**

- Definition of Quality and its Significance
- Measuring Service Quality
- Service Quality Gap Model
- Service Quality Standards
- Benchmarking
- Total Quality Management
- Strategies for Improving Service Quality
- Monitoring Service Quality

*The quality of expectations determines the quality of our action.*

- Andre Godin, French Socialist, (1817-1888)

In manufacturing organizations, a defective product can be easily recognized at any stage in the manufacturing process and prevented from reaching the customer. In addition, the quality standards for a product remain the same and do not vary from person to person or from time to time. So, it is comparatively easier to ensure quality in the case of products. However, in the case of a service organization, the quality of service depends on the perspective of a person. What an employee believes as quality service may not be perceived as such by the customer. For example, when a regular customer visits a bookstore, the employee there may give him a new arrival on a topic that he thinks is of interest to the customer. However, the customer might prefer to take a trip of the store and see all the new titles for himself. He might in fact feel annoyed with the employee. So, offering a high quality service is an enormous challenge for any service organization. At the same time, service organizations cannot offer a completely standardized service as some customers prefer a customized service offering to suit their needs. In this chapter, we shall define quality; discuss its importance, discuss the methods to measure quality and understand strategies to improve it.

### DEFINITIONS OF QUALITY AND ITS SIGNIFICANCE

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Let us first observe some of the definitions given by experts in the field:

According to Philip B. Crosby, "Quality is conformance to requirements."<sup>1</sup>

According to Parasuraman and Berry, "Quality is exceeding what customers expect from the service."<sup>2</sup>

According to Garvin,<sup>3</sup> quality can be defined from different perspectives – user-based, product-based, manufacturing-based, value-based and transcendent view.

**User-based approach:** This approach suggests that quality should be defined from the customer's perspective. A service offering that meets the customer's needs and wants to his complete satisfaction is quality service. This approach also recognizes that different customers have different needs, because of which it becomes difficult for the service provider to satisfy every customer's needs. For example, a supermarket packs the items bought by a customer and arranges for it to be delivered to his car. One customer may consider this quality service but another may not because he expects a door-delivery service.

**Product-based approach:** This approach suggests that the service offered by an organization falls short of the quality standards only when a certain attribute or aspect of service is left out or distorted. For example, if a customer comments that the quality of service offered by a hotel is poor, the approach assumes that either the food was not tasty, the service personnel were not customer-oriented or that the ambience was not good. It assumes that service quality can be well defined and established, and does not vary from person to person.

**Operations-based approach:** This approach suggests that the quality of a service depends on the efficiency of the operations involved in service design and delivery. It emphasizes cost effectiveness and productivity rather than customer needs and preferences. For example, a fast food outlet needs to deliver food to the customer without any delay. If the outlet fails to meet the quality standards, this approach assumes it is due to a flaw in the operations involved.

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<sup>1</sup> Quoted in John Beckford, *Quality*, 2<sup>nd</sup> edition. US: Routledge, 2002.

<sup>2</sup> Leonard L. Berry and A. Parasuraman, *Marketing Services: Competing through Quality*, New York: The Free Press, 1991

<sup>3</sup> D. Garvin, "What does Product Quality Mean?" *Sloan Management Review*, Vol. 4, 1984.

**Value-based approach:** This approach seeks to define quality as the value offered in return for the price paid by the customer. In other words, it suggests that the higher the price charged from the customer, the more should be the benefits offered by the service provider. For example, the quality of service offered by a five-star hotel should be higher than that offered by an ordinary hotel, as the customer charges are comparatively higher.

**Transcendent view of quality:** This approach suggests that a person can assess the quality of a service accurately only when he is exposed to it repeatedly. For example, a customer may like the service offered by a particular hotel in a city better than that of any other hotel. According to this approach, he would have arrived at this decision only after repeated exposure to the service. This approach suggests that consistency in maintaining quality standards is important.

Though the definitions of 'Quality' vary greatly, everyone accepts that it is a key determinant of the success of an organization.

Following are some of the reasons why quality is significant for the success of a service organization:

**To win credibility and obtain repeat customers:** If an organization offers quality service consistently, it enjoys repeat business, that is, customers visit it repeatedly. Because customers obtain the desired service and are happy with it, the chances of their moving to a different organization are minimized. They may even refer it to their friends and relatives and provide positive word-of-mouth publicity to the quality service offered by the organization. Thus, the organization succeeds in attracting new customers as well.

**To charge premium price:** When an organization offers superior quality service compared to its competitors, customers who value quality will always prefer this organization to other players in the market. Therefore, the organization will be in a position to charge a premium price from customers. However, organizations competing on the quality aspect need to continuously improve and offer better services so that they always set themselves above the competitors and win the loyalty of customers.

## MEASURING SERVICE QUALITY

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The intangible and perishable nature of services makes it difficult for organizations to measure their quality, identify the loopholes and take necessary steps to improve the quality. Service organizations therefore evaluate certain components of a service to determine its quality. According to Gronroos<sup>4</sup>, any service has two important components – functional and technical.

**Functional** – This component involves interaction between the customer and the service personnel. For example, when a customer visits a hotel, the warmth at the reception, the promptness in check-in and the responsiveness of room service, all comprise the functional component of service.

**Technical** – This component refers to the output of the service operation. For example, if a flight reaches its destination exactly on time, the airlines is said to have delivered quality service with respect to the technical component. The technical component of service is easier to evaluate than the functional component.

According to Berry and Parasuraman<sup>5</sup>, service quality is determined by customers using various criteria like credibility, security, access, communication, tangibles,

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<sup>4</sup> Christian Gronroos. *Service Management and Marketing*. 2<sup>nd</sup> edition. US: John Wiley & Sons, 2001.

<sup>5</sup> Leonard L. Berry and A. Parasuraman, *Marketing Services: Competing through Quality*, New York: The Free Press, 1991

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responsiveness, competence, reliability, etc. The authors identify similarities among some of these criteria and therefore, consolidate them into five dimensions – Tangibles, Reliability, Responsiveness, Assurance and Empathy.

**Tangibles:** Service is intangible to customers. However, they assess the service by the equipment used to provide the service, the premises within which the service is offered and the employees who provide the service. Therefore, service providers need to ensure that they provide the right ambience and infrastructure to the customers and that their smart and pleasant employees offer high quality service. Managing tangibles like these enables organizations to make a positive impression on not only existing customers, but also on prospective and first-time customers.

**Reliability:** The service offered by an organization needs to meet the expectations of customers consistently. It is only then that a customer considers the service reliable and the organization dependable. Services should be tested for their consistency before they are launched. They should be monitored closely after their launch and the management should take immediate steps if any unexpected service failures are observed. In addition, the organization should provide suitable infrastructure for error-free services. For example, there should be proper communication systems in place and the employees should be trained in technical skills and service skills to provide high quality service.

**Responsiveness:** Service personnel should be prompt in attending to customers and serving their requirements. The customers should perceive them to be enthusiastic and responsive while serving them. The personnel should be especially attentive during problem situations where the customer has some complaints with the service. Employees should be empowered by the management to do all that they can to help a customer in trouble. Employees who work with commitment and customer orientation should be rewarded to encourage similar behavior among all the employees.

**Assurance:** Service personnel should have a thorough knowledge of the service they are providing to the customers. For example, a sales executive selling mutual funds should have complete knowledge of the expected returns and the tax implications of the investment. He should be able to provide strong and timely advice to his customers. His knowledge and his confidence should assure the customers that the company's service is dependable and trustworthy.

**Empathy:** The service personnel of an organization should be easily accessible and open to communication. They should empathize with customers who report problems and work quickly to resolve them. For example, when a customer calls up a bank complaining that he has a problem with the balance amount and needs to get it resolved immediately, the customer care executive on the phone should understand the problem, ask relevant questions and assure the customer of immediate action. He/she should also ensure that the problem is resolved at the earliest. Service personnel should consider customer complaints as an opportunity to interact with the customers, understand their needs and improve the service offering.

## SERVICE QUALITY GAP MODEL

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Some service providers believe that they offer the best possible service to their customers. However, quite often the service falls far short of customer expectations. There is gap between what the customer expects and what the organization offers them. This is called *customer gap*. There can be different reasons for this gap and these are called the *provider gaps* by Zeithaml, Parasuraman and Berry. These gaps need to be closed to close the customer gap and improve the service to match customer expectations. Some of the reasons for this gap can be -

- Failure to understand customer expectations
- Failure to design the right service



- Not setting and communicating the right service standards to employees and intermediaries
- Failure to deliver the service standards to customers
- Failure to take customer feedback and review the service continuously

**Failure to understand customer expectations:** The quality of decisions made by the management in service organizations often depends on the quantity and quality of information they have about the customers. Any decisions that are taken without the needs and preferences of customers being understood prove to be ineffective. The management may fail to prioritize its projects, fail to provide supplementary services valued by customers and offer services that are not required by them. This would simply add to the costs of the organization without awarding any benefits.

Managements fail to have information about customers because they are too engrossed in their managerial responsibilities and fail to interact with the customers. However, the front-line employees are in continuous contact with customers and the management can interact with these employees to obtain the desired information. Efforts should be made by service organizations to minimize the number of layers between the top management and front-line personnel so that communication between them is easier and information is not lost while passing through different hierarchical levels.

Further, the management should conduct market research and attempt to collect more information related to customers' opinions about the quality of service and their expectations from the service provider. Various techniques like focus groups, brainstorming, and customer surveys can be used to collect the information. Information so collected should be used effectively to improve the service quality and to meet customers' expectations.

The management should also use the information about customers to build and develop relations with them. For example, greeting regular customers on special occasions like their birthday and wedding anniversary helps in enhancing and maintaining relationships. Information should be collected on the customer buying patterns too and the database should be regularly updated. Availability of the latest information enables the management to know the changes in customer expectations and reduce the customer gap.

**Failure to design the right service:** Organizations which do not have service designs that meet customer expectations, are bound to lose out to competitors. The service design of an organization should take into account not only the current requirements of customers, but also their changing buying patterns. This helps the organization be proactive in its approach and capture a good market share by adding to the customer base. For example, cellular service companies that added the SMS (Short Messaging System) facility early to their service package succeeded in attracting customers. A new service offer from Hutch helps the customer check his outlook express mail immediately on his cell phone. This can be very useful for corporate travelers and might soon attract some new customers.

When companies fail to foresee customer needs and their changing preferences, they fail to design services that suit their needs. As a result, they fail to satisfy the customer and so lose the market to proactive competitors. When more and more service providers in the mobile industry start offering the mail service discussed above, any company that does not offer it will be perceived as falling short of the service quality expected by customers.

**Not setting and communicating the right service standards to employees and intermediaries:** If an organization does not have any set service standards, employees do not know whether they are doing their job right while serving the customer. Without any standardized procedure or goals, they will do whatever they think is right

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in delivering the service. Sometimes, however, even if an organization has established standards, it fails to satisfy the customers. Either the standards might not be good enough to satisfy and attract customers or the employees and the intermediaries are not aware of these standards. When the standards are not communicated properly to the service personnel or the intermediaries, they fall short of customers' expectations, leading to their dissatisfaction.

It has, therefore, become imperative for service organizations to establish standards that actually meet the expectations of customers. In addition, the standards should be communicated to intermediaries and employees at all levels and they should be encouraged to maintain them. The standards should be complete, clear and concise. For example, a service standard that says, "a customer has to be attended to at the earliest" is inadequate when compared to "a customer has to be attended to within 30 seconds of entering the premises." It is not only the employees of the organization, but also the intermediaries like agents and brokers who need to be aware of the service standards and their significance.

**Failure in delivering the service standards to customers:** Sometimes, in spite of designing a good service and setting service standards, a service provider might fail to deliver the promised quality service to customers. The reasons for such a failure can be many. One reason could be operational problems like technological or logistics problems. For example, a courier service provider promises that the consignment will reach its destination within 24 hours. However, due to bad weather, the flights are cancelled and the courier is delayed. This might annoy the consumer. Even sudden changes in the demand-supply balance might affect the quality of customer service.

In some cases, in his eagerness to sell the service, a salesperson may promise something to the customer that the service offering does not include. For example, he might not reveal the inherent risks in making a financial investment and promises the customer high returns. However, the customer who suffers losses by purchasing the investment package might not realize that it has happened due to the inherent risk and may blame the organization. The management should, therefore, avoid and discourage strategies that make exaggerated promises. Sometimes, the customer might mislead the service provider by providing incorrect or incomplete information, and this might result in shoddy service delivery.

Sometimes, lack of communication between various departments also leads to poor quality service. For example, the marketing department may promise a customer that the service will be delivered on the same day. But the customer service department may have some problems and declare that it cannot deliver the service before three days. Proper communication and co-ordination between the various departments will help the organization deliver better service.

**Failure to take customer feedback and review the service continuously:** A service company which enjoys a large dedicated customer base today, may lose out to competitors if it fails to continually upgrade itself. The marketer should keep track of the changes in the market environment, the customer buying patterns and his changing needs to redesign his service from time to time. When a marketer relaxes and becomes complacent, the competitors soon make new offerings and attract the customers. Therefore, it becomes imperative for a marketer to keep track of customers' changing needs and requirements and modify his service offering accordingly.

When BSNL realized that the fixed line service was getting outdated and that most private telecom players were venturing into the cellular service business, it too started offering cellular services to its customers.

## SERVICE QUALITY STANDARDS

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Organizations should establish specific service standards so that all the employees strive to maintain them and customers experience excellent service. Standards can be

**Exhibit 22. 1****Service Standards of Reliance Energy**

Reliance Energy Ltd. has established some quality objectives and a quality policy to offer high quality service to its customers.

Its quality objectives include

- Making available reliable, uninterrupted and quality power to its customers
- Providing prompt, economical and reliable value added services to its customers
- Ensuring continuous improvement in systems and processes by incorporating the latest technology and conforming to national and international standards

Its quality policy is as follows:

- To be the best fully integrated electric supply utility and a leading provider of value added services
- To meet or exceed the customer expectations by continuously improving the quality of its services
- To be a good corporate citizen and an environment friendly organization

Apart from setting these objectives to serve customers, Reliance Energy has also set the following service standards to satisfy its investors:

<b>Activity</b>	<b>No. of Days to perform</b>
Transfer of shares	7
Transmission of shares	7
Issue of duplicate share certificates	30
Dematerialization	15
Issue of duplicate dividend warrant	3
Issue of revalidated dividend warrant	3
Subdivision of share certificates	7
Change of address	4
Registration of nomination	4

Source: <http://www.rel.co.in/aboutus/Quality.asp>

<http://www.rel.co.in/investorrelations/ServiceStandards.asp>

set with respect to any aspect of the service that is of value to customers. Some organizations may set broader service standards that benefit other stakeholders like investors too. For example, Reliance which offers quality service to customers by supplying them with uninterrupted power has also set certain standards to benefit its investors (Refer to Exhibit 22.1).

The service standards should be in alignment with the goals of the organization. For example, when an organization aims to attract a varied customer base, it cannot set customized service standards. The management should involve employees actively in setting the service standards. As the employees themselves are involved in formulating standards, they are more likely to be committed to maintaining them. Once the management discusses and finalizes the set of standards, they should communicate the standards to all the employees and even the intermediaries. They should display them at various places (like conference hall, work area, water coolers,

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canteen, etc.) throughout the organization so as to constantly remind the employees of their responsibilities. These standards should be communicated in a different form to the customers as well, so that they will know what to expect from the service provider.

The standards should be one of the best in the industry, but achievable within the organization's means. For example, if a courier service provider sets a standard of delivery within 48 hours, he should have the right infrastructure and logistics support to maintain the standard. If he does not have the right network in say, the western part of the country and, therefore, fails to maintain the standard, customers would perceive it as quality failure. So, before setting the standards, a service provider should consider the practicality. Moreover, once standards are set, the management should ensure that there are no deviations from it. The service delivered by employees should exceed the standards but should never fall below them. The top management should extend the required support so that employees can achieve such excellence. In addition, the management should consider the costs involved in delivering the service. If the cost of achieving a certain standard is higher than the maximum price that customers will be willing to pay, it is better for the service provider not to aim for such high standards.

## BENCHMARKING

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According to David T. Kearns, CEO of Xerox Corporation, benchmarking is "the continuous process of measuring products, services and practices against the toughest competition or those companies recognized as industrial leaders."<sup>6</sup> According to John Beckford, benchmarking is "a process of comparison between the performance characteristics of separate, often competing, organizations intended to enable each participant to improve its own performance in the marketplace."<sup>7</sup>

In the process of benchmarking, a department or unit of an organization may compare itself with another department or unit of the organization or one organization may compare itself with another organization that has achieved excellence. The comparison can be in specific areas like customer service, employee retention, productivity, operational efficiency, etc. The company does the comparison, strives to improve itself in the specific area to meet or beat the benchmark company. Sometimes, all the organizations within an industry in a particular country may compare their processes with that of another country and strive to achieve excellence in service quality (Refer to Exhibit 22.2). Benchmarking enables organizations to understand the factors that led to the success of their competitors stimulate their own business by creating a similar environment at their workplace and thereby achieve success.

The process of benchmarking involves five major steps. First, the organization has to identify the critical business processes or areas that need to be benchmarked for improvement. Then it has to choose companies, that have excelled in those areas/processes for benchmarking. In the third step, the organization has to determine the methods to be used for data collection from the company used for benchmarking. In the fourth step, the management should analyze the differences between the processes in the two companies to identify its areas for improvement. That is, the performance gap should be identified. In the fifth step, the management should introduce the necessary changes in the organization to remove the performance gap and improve the service quality. For example, say a fast food outlet wants to improve its delivery time. Its first step would be to identify the process, which would help it speed up delivery. Say, it identifies logistics as the business area. The next step would

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<sup>6</sup> Amy Johnston, "Nreca's Benchmarking/Best Practices Program," *Management Quarterly*, Spring97, Vol. 38, Issue 1.

<sup>7</sup> John Beckford, *Quality*, 2<sup>nd</sup> edition (US: Routledge, 2002)

**Exhibit 22.2****Indian Banking System, Closer to Global Banking Benchmarks**

Price stability and operational flexibility are some of the important characteristics of the international financial system. The Reserve Bank of India (RBI) has chosen the international financial system as the benchmark and is taking steps to achieve the standards. The annual policy announced by the RBI for the fiscal year 2004-2005 clearly reflects its efforts. The RBI redefined infrastructure to include education, institutes, hospitals and agro-processing units. It has also announced steps to remove the bottlenecks faced by banks in extending credit to small and medium enterprises and the agricultural sector. The RBI has also permitted banks to issue long-term bonds for financing infrastructure projects. This will enhance investment activity and lending in these sectors.

The RBI has given flexibility to banks to limit credit to individuals. This will enable them to extend more credit to the corporate sector. The corporate sector, therefore, stands to benefit from the RBI policy. But RBI has tightened the norms that determine the non-performing assets (NPA) of banks. This is an effort to ensure that banks maintain their efficiency as they strive to grow. The RBI has also suggested that banks manage market risk as well as credit risk.

The RBI has also announced many steps to maintain price stability, and adequate liquidity, support exports and investments. All these measures will enable Indian banks to improve their service quality and move closer to global banking benchmarks.

*Adapted from K. V Kamath, "Towards Global Benchmarking," Financial Express, 19 May, 2004.*

be to identify the company to benchmark against and say it identifies McDonald's. The third step would be to collect data from the company and it does this by talking to the management of McDonald's directly. In the fourth step, the company compares the processes in the two outlets and identifies the areas for improvement in the kitchen and at the counter. As the last step, it implements the necessary changes to improve its processes.

Benchmarking can be of three types – internal, external and generic. In internal benchmarking the functions or processes of one department or unit are compared with those of another department or unit of the same organization. In external benchmarking, the function/process of one organization is compared with that of another organization in the same industry. In generic benchmarking, the function/process of an organization is compared with that in another organization in a different industry. For example, the logistics of an online book store (say, amazon.com) may be compared with that of a transportation company (say, FedEx).

Some organizations are content with their achievements (the amount of market share, profits, etc.). They believe that their capability is limited and that is all they can achieve. They fail to improve their performance because they do not even know that such an improvement can be made. Benchmarking enables the management realize that competitors are able to perform better on the strength of better processes. The management can then improve its own processes to meet or even exceed the performance standards of competitors. However, this requires the employees of the organization to stretch themselves to achieve those high standards. They need to be motivated to work harder for the survival and success of the organization. In addition, employees need to be trained to improve their skills to participate in benchmarking and take the service quality to the desired level.

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**TOTAL QUALITY MANAGEMENT**


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Total Quality Management (TQM) is a systematic approach in which an organization seeks to continuously improve its processes and enhance its service quality to both internal and external customers, and suppliers. According to Ross, TQM is "the

integration of all functions and processes within an organization in order to achieve continuous improvement of the quality of goods and services. The goal is customer satisfaction.”<sup>8</sup> TQM requires organizations to focus not just on one particular aspect of their business, but on all those activities that will have a bearing on the quality of service delivered to the customer. By applying TQM, organizations can achieve zero defections in all their activities and processes and enhance customer satisfaction. One of the TQM techniques applicable to service processes is *poka yoke*. It is a mechanism, that seeks to prevent mistakes from taking place, and in case they could not be prevented, it seeks to identify the mistakes committed in a process and rectify them before the customer detects them and complains. *Poka yoke* recognizes that people tend to commit mistakes when they repeatedly perform the same process/activity. Therefore, it attempts to re-engineer the process in such a way that the person does not get an opportunity to commit a mistake. *Poka yoke* was earlier used only in manufacturing processes. However, it can be easily applied to service processes as well. For example, suppose the receptionist at an academic institute that has various branches spread across the city, often makes a mistake in guiding visitors, students and parents correctly. By keeping a route map at the reception that gives directions to reach the different branches, the receptionist is less likely to make mistakes. Similarly, if the administration assistant at a sales office is provided with a list of mobile numbers of all the sales representatives, she can give them the messages given by the boss or customers immediately.

### **STRATEGIES FOR IMPROVING SERVICE QUALITY**

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It is not too difficult for companies to improve service quality. What is required is the right strategy to do it and the commitment by all members of the organization. The following are some of the strategies that should be followed by service organizations to enhance the quality of service offered to customers:

- A service provider should aim at achieving zero-defects or error-free service. This can be achieved by having a management that believes in 100% perfection, providing the necessary infrastructure that facilitates error-free service, and by testing and re-testing service processes at various stages to eliminate any loopholes. This will also help them improve continuously to set and achieve new standards. For example, DHL set up a separate express terminal spread over 26,500 sq. feet, using state-of-the-art technology, at Indira Gandhi International Airport, Delhi. As the customs' staff work round-the-clock at this site, the process of clearance of customers' consignments have been speeded up, enabling DHL to deliver consignments faster to customers.
- Internal communication promotes better understanding among employees of each others' tasks and responsibilities, and the difficulties involved, and enhances co-operation and coordination which eventually results in better service to customers. Also, organizations should be equipped with modern training equipment and techniques to simulate real work environment and train employees to deliver quality service. UTI (Unit Trust of India), which saw its scale of operations and number of employees increase significantly, implemented an advanced communication system with the help of Wipro, to facilitate effective communication among its scattered branches and employees.
- Service providers should always test a service prior to launching it in the market place. If possible, a new service should be introduced in a few select places for test-marketing. This will allow some time for the management to obtain customer

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<sup>8</sup> J.E. Ross, *Total Quality Management: Text, Cases and Readings*, 2<sup>nd</sup> edition, (UK: Kogan Page, 1994)

feedback. In case customers report problems, the management can take corrective action. Another approach to prevent problems is to develop a service blueprint to identify all the activities that lead to final service delivery, identify problem areas and train employees to handle the problems. Service providers should also test the service after launching it. Setting higher service quality goals and striving to achieve them should be an ongoing process as any complacency will render the service outdated in a competitive market.

- Sometimes, service providers fail to deliver the service despite all the precautions they take to prevent a failure. At such times, customers' perception of service quality depends on the service provider's ability to resolve the problem immediately. To enable effective service recovery and regain customers' confidence, service providers should train employees in recovery techniques and empower them to resolve the problem immediately. Also, they should reward employees who take the initiative and resolve the problem quickly.
- The management should extend support to employees by setting up the necessary information system and other infrastructure that enables employees to identify and rectify errors with ease. Further, organizations should encourage teamwork among employees. By having an effective service recovery system in place, service providers can assure customers that they care for them.
- Trained employees will be prepared to face problems and, therefore, can resolve them as soon as they occur and sometimes even before the customer can perceive the error. The benefits of empowerment, rewards, and information system have already been discussed in earlier chapters.

### **MONITORING SERVICE QUALITY**

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Apart from using quality management techniques and adopting service quality improvement strategies, organizations should continually monitor their service quality. This will help the management ensure that customers receive the quality of service that their organization intends to deliver. The management can use the following methods to monitor service quality:

**Conduct Customer Surveys:** Service organizations should regularly conduct customer surveys to know whether the customers have any issues with the service offered or with the service personnel (Refer to Exhibit 22.3). Questionnaires should be given to customers to elicit their opinions and rate the quality of service offered by the organization. Also, efforts should be made to explore the factors leading to any dissatisfaction. Mystery shoppers, researchers who visit service outlets posing as customers, may also be used to identify problems with service quality. These researchers keenly observe how the service is being delivered and how the customers respond to the service. They identify the deficiencies, if any, in the service processes. The management can then take necessary action to eliminate the deficiencies.

**Monitor Customer Feedback:** Managers should give special attention to the feedback given by customers in the form of complaints or suggestions or even compliments. The management should try to find out the rootcauses of problems in case of complaints, and prevent them from recurring. If the customer makes some suggestions, the management should consider them, discuss them with employees for their feasibility and applicability, and implement the ones that are valuable and practicable. If customers give compliments to service personnel, then management should encourage the concerned employees to continue to offer quality service by rewarding them.

### Exhibit 22.3

#### Customer Survey at Sheraton

Sheraton Brisbane Hotel and Towers (SBHT), situated in Brisbane, Australia, is the city's premier business and conference hotel. It wanted to offer excellent service to its customers and therefore conducted customer surveys in 1992 to know whether customers were satisfied with its quality of service.

SBHT had both the Hotel and Towers. Towers offered a higher standard of quality to customers than the Hotel. SBHT had even set up a separate check-in facility for Towers's customers at the 27<sup>th</sup> floor of the building so that they did not have to stand in queue at Hotel's reception. However, some customers of Towers were seen to be waiting at Hotel's reception. SBHT put up a sign in the lobby indicating the way to Towers's reception. Apart from the sign, customers could obtain the information from the doorman or bellman and the Hotel's reception. However, the management did not know how effective the sign and staff were, in redirecting Towers' customers to the right check-in counter. Therefore, SBHT asked receptionists of Towers to collect information from customers on how they had come to know about Towers and the separate reception and note down the source in the record sheet. Similarly, the receptionists of Hotel were required to fill the record sheet containing questions like whether customers knew about Towers, the separate reception facility, whether they had ever stayed in Towers before, etc. The result of the study indicated that only a small percentage of the people knew about Towers and the separate reception facility. This indicated the need for SBHT to improve its communication with customers.

Another study was related to the time taken to deliver luggage to the guest's room. SBHT had a quality policy, which specified that a customer who checked in the room should not wait for more than 10 minutes to have his luggage delivered to his room. However, SBHT wanted to know whether the standard was actually being followed. A card was given to customers to note down the time they arrived and the time their luggage arrived. The customer could give the card to the bellman or to the receptionist. A different color code was chosen to represent each day of the week. The number of cards given and the cards returned by customers were also recorded carefully so that cards did not get lost or misplaced. If some cards were not returned, the management sought an explanation from the staff. At the end of the study, SBHT found that the longest time taken for luggage delivery was 8 minutes. Therefore, it was found that the luggage delivery process at SBHT did not have any problems and no immediate action was required to modify or re-engineer the service process.

*Adapted from Ian W. Saunders, Mary Ann Graham, Total Quality Management, 1992, Vol. 3, Issue 3.*

**Review Service Blueprints, Problem-Tracking System:** The management should constantly review the service blueprints and identify any problems that exist. If necessary, the management should change the monitoring procedures and problem tracking procedures. Service blueprinting is the process of representing the entire service process in the form of a picture/diagram so as to ensure that all the steps in a service process are covered.<sup>9</sup> As the service blueprint provides information on each single event and activity involved in the service, a service manager can test its effectiveness on paper. He can modify the service process before applying the usual testing procedures (like test marketing, etc.)

## SUMMARY

According to Philip B. Crosby, "Quality is conformance to requirements." However, service organizations should strive to enhance the quality of their service to exceed customers' expectations, so as to stay ahead of competitors. Quality is also defined from different perspectives like user-based approach, product-based approach,

<sup>9</sup> L. Friedman, ed s., "Hand Book of Services Marketing," (New York: American Management Association, 1990)



operations-based approach, value-based approach and transcendent view. Improving service quality enables organizations to win credibility, enhance customer satisfaction, obtain repeat customers and even charge a premium price. To measure the quality of service offered, service organizations have to measure both the technical and functional components of the service. According to a research conducted by Zeithaml, Berry and Parasuraman, five important dimensions of service (as viewed by customers) that need to be evaluated are tangibles, reliability, responsiveness, assurance and empathy. There can be many reasons for the differences between the quality expected by the customer and the quality delivered by the organization. Organizations need to establish certain service standards so that all the employees, as a team, strive to achieve them, and offer superior quality service to customers. Service organizations can use techniques like TQM and benchmarking to improve their service quality. Striving to offer reliable service and implementing effective service recovery methods are some of the strategies used by service organizations to improve service quality. Apart from using quality management techniques and strategies, a service organization should continually monitor its service quality to ensure that customers consistently receive the level of quality service that they expect from the organization.

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## **Chapter 23**

# **Globalization of Services**

**In this chapter we will discuss:**

- The Growth in Global Service Markets
- Factors Influencing Globalization
- Overseas Market Entry Decisions
- Assessing Globalization
- Challenges in the Global Market
- Factors Influencing Success of Global Firm
- Prospects for the Global Marketing of Services

## Services Marketing

*"Things must change if they are to remain the same."*

– A line from Giuseppe di Lampedusa's novel "The Leopard"

For a long time, it was believed that services could not be marketed globally. Since services require direct interaction between the customer and the service provider, it was believed that geographic and cultural barriers would not allow organizations to deliver services globally. However, the advances in communications, transportation and information technology have ushered in a new era of services marketing the world over. Along with the technological advancements, some political, social and legal changes across the world have also made globalization of services possible. For example, we see many organizations from across the world outsourcing their business processes to countries like India, the Philippines, and China. In this chapter, we will discuss the various factors leading to globalization of services, different modes chosen by organizations to enter foreign markets, the challenges they face in these markets and the strategies they use to overcome the challenges and succeed in the global markets.

### **THE GROWTH IN GLOBAL SERVICE MARKETS**

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Globalization refers to the free movement of goods, services, people, capital and technology across various countries in the world. For centuries before World War I, when markets were open, people, goods and capital traveled across borders. European traders traveled regularly to Asia and procured valuable goods to be sold in their countries for a profit. However, later, markets in different countries tried to protect themselves by imposing heavy tariffs on cross-border trade. As a result, world trade suffered and the world market shrank in size. After World War II, more and more countries used tariff and non-tariff barriers to make it even more difficult for foreign traders to cross borders. This led to a significant decline in international business and trade was confined to within the country borders or with immediate neighbors.

In the past few decades, many countries have realized the need to reduce tariffs and facilitate trade across borders for their benefit. Such countries have come together to form an international body called the World Trade Organization (WTO). The member countries conduct periodic talks and agree to reduce tariffs in a phased manner. To this effect, they have signed the General Agreement on Tariffs and Trade (GATT), now called the General Agreement on Trade and Services (GATS). As a result, international business is flourishing again with goods, capital and people traveling across countries. The agreement has facilitated the trading of services across borders. As mentioned earlier, technological developments have also played a vital role in reducing the effects of natural barriers like geographic distance. The cost of information processing and communication has come down significantly in the last few decades, accelerating the pace of globalization. The latest developments in optical fiber technology, videophone and teleconferencing facilities have made it possible to conduct business transactions without the transacting parties to be physically present. This convenience coupled with reduced expenses has encouraged organizations to establish operations in various countries across the globe. They can now use the technology to control the business, develop coordination and leverage synergies among the subsidiaries spread across the globe.

Initially, it was only the manufacturing organizations that took advantage of globalization and developed their business. Gradually, however, service organizations also entered the arena. The share of services in world trade has increased significantly over the years. According to an UNCTAD (United Nations Conference on Trade and Development) report, service industries account for more than 50% of FDI (foreign direct investment) flows<sup>1</sup>. McDonald's, Pizza Hut, Standard Chartered Bank, British

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<sup>1</sup> Gary Hufbauer, Tony Warren, "The Globalization of Services," International Conference of

Airways, Oracle, and Microsoft are some of the service organizations which have their operations spread across the world. Many Indian IT companies like Infosys, Wipro, and TCS have become global players. The Taj Group is an international player with its hotels in major cities like London.

In the following section, we will discuss the factors that have contributed to the growth of globalization.

### FACTORS INFLUENCING GLOBALIZATION

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Many factors drive globalization. In the Indian scenario, the economic reforms that were introduced in 1991 have paved the way for the free flow of goods and services across the borders. This has benefited the country in many ways, such as creating new business opportunities like in the area of business process outsourcing. Some of the changes that have boosted globalization worldwide include

- Changes in social factors
- Changes in technology
- Changes in political and legal conditions
- Competition in the market
- Competitive advantage

#### Changes in Social Factors

Today, people in one country know more about people in other countries, their culture, lifestyle, food habits, etc. because of their exposure to the media as well as personal experience gained by traveling to those places. We can see that the needs and wants of people across the world are converging, at least in a few service areas. For example, people in the East enjoy western music, while the West relishes the cuisines of India and China. Apart from visiting new places on a holiday, people also travel across the world for higher education, research, and jobs. Business people from all over the world expect similar facilities and services on flights and in hotels. With homogenization of tastes and preferences of customers across the world, though to a limited extent, service providers are finding it easier to offer their services on a global scale. Though this homogenization is superficial, it offers opportunities for local players to go global.

#### Changes in Technology

Advances in technology have made it possible for even high contact services like healthcare and technical support to be offered to remote customers. For example, if a client based in the US faces a problem with the application installed by a software solution provider from India, the latter can access the client's system and rectify the problem through a server. Similarly, a specialist surgeon can guide another surgeon operating on a patient, virtually from anywhere in the world. This is an advanced form of telemedicine, which enables patients to consult doctors online and be treated. For example, a senior surgeon at London Health Sciences Centre (LHSC) guided surgeons performing a heart surgery at LHSC from a far off location<sup>2</sup>.

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Private Business Organizations, June 1999.

<sup>2</sup> Trudy den Ouden, "The Virtual Operating Room and Tele-Robotics Surgery at London Health Sciences Centre, <<http://www.lhsc.on.ca/vision/vconfinf/article3.htm>>

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### **Changes in Political Conditions**

In some countries, political changes have facilitated globalization of services. In China, strict communist principles were followed until the 1970s. The government owned most of the assets and organizations in the country. There were strong restrictions on the inflow of foreign goods and services. However, the political leaders of the '70s recognized the need for a policy change and lifted the restrictions on trade, facilitating a free flow of goods and services. Russia (erstwhile USSR), was also a staunch communist country. However, it underwent some major changes during the tenures of Michael Gorbachev and Boris Yeltsin to discover its economic strengths. India too, with the introduction of economic reforms in 1991, became a global economy and a force to reckon with. With more and more economies opening their gates to the free flow of goods and services across borders, the world has become a unified global market.

### **Competition in the Market**

Within a country, there may be intense competition among the domestic players, forcing some of them to venture outside in search of better fortunes. When there is no scope for any expansion within the country, a service provider may seek opportunities in other countries in order to utilize its unused potential. It identifies new markets that have a potential demand for its services and exploits the opportunity.

### **Competitive Advantage**

Intense competition in the market forces service providers to develop competencies that give them a competitive advantage over others. In addition, service organizations need to offer superior quality services at attractive prices to customers. To have a competitive cost advantage, companies try to cut down on the cost of operations by choosing places where the cost of production is minimized. They look for places where there is an abundant supply of people with the desired skills and the cost of labor and other services is lower. Therefore, organizations have their headquarters at one place, some operations at another and a few others at yet another place. And this leads to globalization. For example, General Motors has based its advertising and marketing service operations in Great Britain, data processing services in Ireland and legal, banking, and insurance services in the US. Many IT firms like IBM, Microsoft, Dell, and Oracle have set up their operations in India, because of the availability of skilled people and the infrastructure and support offered by state governments. GE has customer service, technical support and data processing operations in India.

### **Regulations in Home Country**

Sometimes, too many regulations imposed by the government in the home country encourage national players to set up operations in countries where such regulations do not exist. India had a strong licensing system in place after independence. As a result, no Indian company could start any new business, if it was over a certain size. As a result, innovative businessmen like Aditya Birla opened companies in countries like Malaysia and Thailand. Thus, the Birla Company became one of the first global companies from India.

### **Lack of Demand in Home Country**

Sometimes, organizations may find that the demand for their services within their own country is either non-existent or too low to gain enough of a margin. For example, IT firms in India like Infosys, Satyam, and Mastek concentrated on the global market in their initial stages primarily because Indian companies did not come forward to purchase the advanced IT solutions that they offered.

## OVERSEAS MARKET ENTRY DECISIONS

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Different organizations enter different markets for different reasons and in different ways. Some of the modes of entry chosen by organizations to venture into foreign markets include exporting, taking up turnkey projects, licensing, franchising, getting into joint ventures, and starting a wholly owned subsidiary. Each of these methods has its own advantages and disadvantages. The choice of a company depends on a variety of factors including the nature of the particular product or service and the political, social and competitive scenario in the target market.

### Exporting

Most firms begin their global expansion operations with exports. During the 1990s, the volume of exports in the world economy increased significantly due to the demolition of trade barriers in many countries. However, exporting services remained a challenge owing to their inseparability characteristic. Firms planning to export goods/services must identify opportunities in the foreign market, familiarize themselves with the mechanics of exports and learn to deal with the foreign exchange risk.

Firms can avoid the investment required on technology, infrastructure, and manpower in the host country by adopting the channel of exports. For example, an IT firm in India can export the services of its software engineers to overseas customers.

Exporting benefits firms by enabling them to enter foreign markets at minimum cost. It reduces the dependence of an organization on market demand in the home country. It also protects the business from being adversely affected by seasonal fluctuations in the local market. A firm can utilize its excess or unused potential to serve the foreign markets. However, exporting has its disadvantages too. An exporter has to customize his promotional material to suit the foreign market. He may even have to customize the product/service. He has to bear the additional costs involved in exporting, like shipping costs, and the traveling costs of personnel for making sales calls, trouble-shooting, etc. Earlier the exporter may have had to wait longer for payments from customers abroad. However, this is no longer a handicap in this world of electronic monetary transactions. Under special circumstances, the exporter might need to spend heavily on customs clearance, export license, etc.

### Turnkey Projects

In a turnkey project, the contractor handles every aspect of the project for a foreign client, from the planning and inception stage to completion and handover. At the completion of the contract, the system or plant is handed over to the foreign client. Turnkey projects are common in the IT, chemical, pharmaceutical, and petroleum refining industries.

The main advantage of turnkey projects is the high financial returns from the built and installed assets. Turnkey projects are useful in cases where the foreign direct investment (FDI) is regulated by the host government. For example, many oil rich countries in the Middle East decided to invest and build their own petroleum refining industry, thus restricting FDIs in their oil and refining sectors. However, since many of these countries did not have the technological knowhow for petroleum refining, they entered into turnkey projects with foreign firms that had the technology. Thus, foreign firms exported their process technology to the host country. Turnkey projects are desirable in countries where the political and economic environments do not favor long-term investment.

The disadvantage of turnkey projects is that firms that enter into a turnkey deal have no long-term interest or stake in the foreign country. In addition, firms that take up turnkey projects for a foreign enterprise may be creating a competitor. For example,

## **Services Marketing**

firms that exported the oil refining process technology to countries like Saudi Arabia, Kuwait and the Persian Gulf countries found themselves competing with companies from these countries in the world oil market. In the process of selling the process technology, a firm might also be selling its competitive advantage to potential competitors.

## **Licensing**

Licensing is an arrangement through which an organization (licenser) grants the rights to intangible property like patents, inventions, formula, process, designs, copyrights and trademarks to another company (licensee) for a specified period. The licenser in return receives a royalty fee from the licensee for the rights. For example, an organization may transfer its technical expertise to another organization for a specific time, in return for a royalty fee.

Licensing offers many advantages to a small business, such as rapid entry into foreign markets and virtually no capital requirements to establish manufacturing operations. For example, Microsoft offers licenses to organizations across the world to use their applications and charges a fee for it. In case of licensing, organizations are able to make profits quickly because they do not make any investment on establishing facilities and building infrastructure. They simply allow the licensee to operate and offer services using their brand name in return for a royalty.

The disadvantages of licensing are that the licenser might lose control over service processes and marketing. More importantly, the licensee may become a competitor if too much knowledge and know-how is transferred. Adequate control is necessary to protect trademarks and intellectual property. One way to help ensure that the licenser's intellectual property is protected is by securing a recognized patent and trademark registration. When a license is granted, the licenser may ask the potential licensee to sign a confidentiality and non-disclosure agreement barring the licensee from manufacturing the product/service himself, or leaking the knowledge to third parties. The catch here is that such agreements should not contravene the laws of the host country. Patent rules vary from country to country, so it is important to consult an expert international patent and trademark attorney before entering into any licensing agreement.

## **Franchising**

Franchising is similar to licensing except that it requires a long-term commitment on the part of both the franchiser and the franchisee. In franchising, the franchiser allows the franchisee to use its intangible property like the brand name and the operating procedures, but insists that the franchisee follows the standards and rules of the business specified by it. The franchiser has an important role to play in a franchise business in terms of marketing and promoting the service as well as training and supporting the franchisee employees. The franchiser receives a royalty payment that is usually a percentage of the franchisee's revenues. With the franchising strategy, a service firm can build a global presence faster and cheaper and lower its financial and operational risks.

## **Joint Ventures**

In contrast to licensing and franchising arrangements, joint ventures allow companies to own a stake and simultaneously play a role in the management of foreign operations. Joint ventures require more direct investment, training, management assistance and technology transfer. For example, in India, many joint ventures exist between global insurance firms and Indian banks. There are joint ventures between ICICI Bank and Prudential Insurance; Vysya Bank and ING Insurance and the GMR Group; and HDFC and the Chubb Corporation (global non-life insurer).



Joint ventures can be of two types – equity and cooperative. In an equity joint venture, each party gets profits in proportion to the amount of capital contributed by it. In a co-operative joint venture, profits can be allocated depending on the agreement between the partners. In some countries, a joint venture is the only way for a foreign company to set up operations in the host country. For example in India, until the economic reforms were introduced in 1991, many foreign firms were operating in the country only through joint ventures.

Joint ventures help a firm benefit from the local partner's knowledge of the host country's culture, language and political systems. In addition, a firm can share the costs and risks of opening and running a new business with its local partner. One of the major drawbacks of joint ventures, especially in cases where the foreign company's equity is limited to 49 percent, is the loss of effective managerial control. This can result in increased operating costs, substandard product quality, reduced profits etc.

### Strategic Alliance

A strategic alliance is an understanding or agreement among the players in a market. Firms form strategic alliances to expand to new markets, gain quick access to new technology, extend the product portfolio or avoid competition. In this case, the partnership can last for a fixed tenure, depending on the agreement between the parties involved. Strategic alliances may or may not involve financial commitment. The partners work together on predetermined goals and objectives, and are free to separate once these goals are achieved or when the agreement ends. For example, TCS entered into a strategic alliance with NEC Singapore in 2002, to jointly explore new opportunities in the global market.

### Wholly Owned Subsidiaries

In a wholly owned subsidiary, the corporate owns 100% equity in the local subsidiary. Wholly owned subsidiaries can be established in a foreign country in two ways. A firm can set up new operations in the foreign country or it can acquire a local firm with an established business and promote its own products through that firm.

A wholly owned subsidiary is the preferred mode of entry into foreign countries for firms with strong financial muscle and technological competence. A wholly owned subsidiary allows an organization to have tight control over operations, which is not possible in the case of licensing and franchising. The firm also does not risk letting go of its competitive advantage. However, a wholly owned subsidiary calls for huge investments and the company has to bear the complete risk while learning from its own experiences.

### Mergers and Acquisitions

Mergers and acquisitions (M&As) are also one of the avenues for service organizations to enter foreign markets. M&As became quite popular in the '90s as more and more MNCs expanded their operations across different countries. In a merger, two organizations come together as one, with mutual consent, in a view to synergize their operations and gain more (Refer to Exhibit 23.1). However, in the absence of effective planning and management, mergers fail to realize the expected benefits. It is important for two merging firms to have some synergies and common features that strengthen the merger. In an acquisition, one organization buys out another using its financial strength and negotiation skills. Some acquisitions can be hostile, and some, friendly. The acquisition of Daksh e-services by IBM in 2004 has been explained in Exhibit 23.2. Acquisition enables organizations to enter foreign markets with ease as they are spared the effort of establishing a new business unit, recruiting and training staff, and attracting clients.

### Exhibit 23.1

#### Merger of Citicorp and Travellers

In April 1998, the financial services giants, Travelers Group and Citicorp agreed to the largest merger in corporate history. Citicorp operates in 100 countries and offers banking, insurance and investment services to more than 200 million customers across the world. The Travellers group operates globally and offers various services like brokerage services, investment banking and underwriting, consumer loans, Travelers Bank Credit cards and Travellers Life and Annuity. The \$166 billion merger created the world's biggest company, Citigroup, with \$700 billion in assets and a market value of nearly \$160 billion. John S. Reed and Sandy Weill, CEOs of Citicorp and Travelers respectively, were to serve as Co-CEOs and Co-Chairmen of the Board of Directors.

#### Synergies

Citicorp and Travellers hoped that the merger would facilitate “cross-selling” of each other's products in each other's territories. While Travelers had a limited presence overseas, it had one of the strongest distribution systems in the US. Citicorp, however, had an impressive network outside the US. It had 464 branch offices in Europe, 166 in Latin America and 93 in Asia. Its sales force, however, paled before Travellers, which had 10,300 Salomon Smith Barney brokers, 80,000 part time Primerica Financial Services insurance agents, and 100,000 agents selling Travellers' insurance. After the merger, Citicorp could sell its CitiGold and Private Banking Services more efficiently to Travellers' 20 million U.S. customers. The customer segments of the premerger entities seemed to complement each other well. While Citicorp had a young, less affluent customer base, Travellers customers were older and more affluent. Another area where synergies existed was mutual funds; Citicorp was weak in this area and hoped to learn from Travellers' experience.

Although many synergies were expected to be achieved by the merger, there were some areas of concern. The compensation policy was very different in the two companies. Citicorp had a relatively conventional compensation structure that offered stock options to people it wished to retain. It did not insist that executives retain their stock. The officers and directors at Citicorp put together, owned less than 0.5% of the company's stock. At Travellers, Weill himself owned 1.3% of Travellers' stock, worth about \$950 million, and the company's officers and directors together owned 2.45%. These stakes had been built by Travellers' convention of a “blood oath” that forbade the management team and its directors from selling shares.

#### Problem areas

The work culture of the two companies was very different. Travellers had an aggressive, fast, deal making culture. On the other hand, Citicorp had a conservative culture built around long term customer relationships.

Appointing Reid and Weill as Co-CEOs also caused problems for the merged entity. Both Reed and Weill were contrasting personalities. Reed was a loner who disliked talking to the press while Weill was outgoing. Weill was a cost cutter and was always concerned about short-term profits and the stock price of the company. He also managed the company through personal relationships. Weill expected and received loyalty from his managers. Reed, however, had a long-term vision for the company and was willing to spend the money to realize it. Reed was not a “people person”; he valued memos and processes to manage the organization.

Many a times there was a clash between Reed and Weill on major decisions and strategies. The power struggle continued till Reed decided to finally quit.

*Source: Sanjib, Citicorp-Travellers merger, ICMR*

However, the new management might have to face the challenges associated with differences in the corporate cultures of the acquired firm and the acquiring firm. In addition, there may be a decline in productivity after acquisition owing to uncertainty and apprehensions among employees. It is a daunting task for the management to restore confidence in the employees and maximize their productivity.

**Exhibit 23.2**

**IBM Acquires Daksh**

Daksh was founded by four professionals – Sanjeev Aggarwal, Pawan Vaish, M.J Aravind and Venkat Tedanki in 2000. It is funded by equity investors like Actis, General Atlantic Partners and Citicorp and some promoters. Daksh has BPO centers in Delhi, Mumbai, and the Philippines and offices in the US and UK. Right from its inception, Daksh has been highly profitable. It has revenues of \$60 million and cash reserves of \$ 17 million. Daksh serves prestigious clients like Amazon, Yahoo, Sprint, HP and Citibank with Sprint being the largest client contributing to a major chunk of its revenues.

IBM, which has a BPO unit in Bangalore, wanted to set up BPO operations in other cities as well. However, it believed that instead of establishing new operating units, it could benefit by partnering with well established units or buying them. IBM then identified Daksh that was operating profitably and targeted it for acquisition.

Some of the board members of Daksh didn't welcome IBM's proposal for acquisition. The founders and other board members convinced them by explaining the risks of not accepting the proposal. Sprint, Daksh's largest client, had recently appointed IBM global services to manage its call center operations spread across the world. If Daksh escaped being acquired by IBM, Sprint would move out of Daksh and entrust its operations to IBM, thus affecting Daksh's profitability. Daksh, therefore, signed the deal of acquisition.

IBM hoped to derive synergies from its own network of 22 business transformation delivery centers and the BPO unit in Bangalore and Daksh's operations in Delhi, Mumbai and the Philippines. Daksh's expertise in banking, insurance, retail, travel, transport and technology could be integrated with IBM's expertise of in HR, accounting, finance and logistics. IBM decided to allow Daksh to retain its brand name and be run by the same management.

*Adapted from K. Yatish Rajawat, "The Secret of IBM's Daksh Buyout," Times News Network, 26 April, 2004 and "Post IBM, Daksh retains name," Times News Network, 9 April, 2004.*

**Piggyback**

In this method, an organization takes the help of another organization to market its products/services in a foreign market. The piggyback method is used by organizations as a method of entry for various reasons. The organization which carries the product/service into the foreign market through its channel, is called the carrier. The organization that uses the partner's channel is called the rider. When an organization believes that it has a product/service that has immense potential in the new market, but does not want to risk investing large amounts in building the distribution channels, it goes in for the piggybacking method of entry. The partner organization (i.e., the carrier) agrees to the arrangement when the product/service offered by the rider complements its own products/services and enhances its growth. Sometimes, the carrier may even offer his brand name to the rider's products/services. This, in turn, may help in quick acceptance of the new products/services. If the rider's services are well received by customers, the carrier's image will also be enhanced and his own business may grow. The carrier may also help the rider by taking the responsibility for promotion and pricing of products/services. The rider can gain access to information on the foreign market and target customers, without actually entering the market.

Piggybacking also has its set of disadvantages. In some cases, the carrier may not focus as much on the marketing of the product/service of the rider as he does on his own products/services. In cases where the product/service of the rider is a hit with the customers, the carrier might attempt to offer it on his own or acquire the rider's firm. In addition, as the rider does not interact directly with customers, he may fail to have access to necessary information to improve his offering or introduce new products/services to meet customer needs.

### ASSESSING GLOBALIZATION

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Though many service organizations aim to serve global markets, only a few succeed in achieving their goal. Some service organizations may serve some clients across the border or have a few units outside their countries, but this cannot be termed globalization. To be a global firm in the true sense, an organization has to do much more than just establish operations and serve clients outside their country. Some of the parameters that can be used to assess the level of globalization of a firm are discussed below:

#### **Presence in strategic markets**

Some countries have a strategic advantage over others, with respect to a particular service industry. For example, Silicon Valley is a strategic location for major global IT firms. Similarly, Paris, Hollywood and Central London are strategic locations for fashion designing, international films and banking services respectively. These locations have gained importance as they provide organizations with infrastructure and access to required resources. True global organizations should have a presence in these strategic locations. Presence does not mean the mere existence of an office building. The unit should perform strategically important functions and add value to the organization.

#### **Location of value-adding activities**

In the service industry, value-adding services like supplementary services hold the key to customer satisfaction and thus success of a service organization. In an intensely competitive market, organizations prefer locations that help them offer quality services at an attractive price. Most global service companies have for example identified locations like India, China and the Philippines, which have traditionally been used by manufacturing industries to cut down their costs. India leads other countries in offering IT and IT enabled services (ITES) for global service organizations, owing to a large base of a highly skilled English speaking workforce, that comes at low cost. India also offers the advantage of good infrastructure facilities at a low cost and a stable social and political environment.

#### **Achieving desirable balance between globalization and customization**

True global organizations should be able to offer the same service standards to all the customers across the globe. However, if necessary, they should be equipped to offer customized services. In the case of services, customization appears at the point of consumption. For example, consultancy organizations like McKinsey operate globally and offer consultancy services for organizations across the globe. The employees gather information about each client organization, analyze it and present reports to the management, which then offers customized advice to the client. Some organizations need to customize their service processes and offerings to match the country they are operating in. In the banking industry, all banks issue loans at certain rate of interest to customers. However, in Middle East countries like Dubai, charging interest on a loan is against the Muslim law. Therefore, banks with operations in these countries need to customize their products and services to suit the local requirements.

#### **Consistency in quality and pricing of services**

Global organizations need to offer consistently high quality service to all their customers in all the countries in which they operate. Deviations in quality standards can affect the reputation of the service organization and its profitability. For example, the Sheraton and Holiday Inn hotels offer the same quality of services across their hotels in different parts of the globe. Similarly, the consultancy firm Price Waterhouse Coopers, provides consistently high quality tax and advisory services to all its

international clients. These organizations charge a premium price from clients for their services. Though they may charge a different amount from different clients depending on the service offered, they ensure that the basic price charged for a particular service from any client remains the same. Large discrepancies in pricing for similar services can annoy clients, who may then take their business to competitors.

### **Responding to changes in environment**

When a service organization becomes global, it has to gear up to respond to any change in any corner of the world that might affect its business either directly or indirectly. It has to constantly monitor the social, economic and political developments in different parts of the world. In addition, it has to formulate strategies to overcome threats and exploit the opportunities offered by these changes. It cannot afford to just track the moves of competitors within its industry. Because of the fast fading boundaries between industries, every organization needs to be alert to the moves of players in related industries as well.

## **CHALLENGES IN THE GLOBAL MARKET**

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Service organizations that operate globally face various challenges. The special characteristics of services like intangibility, inseparability, heterogeneity and perishability pose specific challenges to global service providers. The intangible nature of services requires service providers to add tangibility to the services they offer, inseparability forces them to train employees to offer impeccable service, heterogeneity requires organizations to ensure consistency in delivering service and perishability requires them to balance demand and capacity effectively. Apart from these challenges, international service organizations face other challenges too like the following:

### **Legal Barriers**

Legal barriers include discriminating laws, subsidies, restrictions on foreign service provider's operations, infringement of copyrights and trade marks, etc., specific to each country of operation. For example, in Tanzania, an organization that seeks to establish its banking operations has to face many legal restrictions. It has to satisfy all the terms and conditions laid down by the central bank of Tanzania to earn a license. The proposals for setting up a banking institution should include plans to offer financial services in the rural sectors and training and employment programs for citizens. The approval to any proposal depends on these plans. Further, banks cannot open a new branch or close an existing branch or declare dividends, without prior approval from the central bank.

#### **Discriminating laws**

Some countries have a legal system with policies that favor domestic firms and discriminate against foreign firms. For example, the branch offices of a foreign company in India are treated as a foreign company and are liable for higher income tax of 48%, as against 35.7% for companies set up in India.

#### **Subsidies**

Some countries offer subsidies and low interest loans to domestic organizations and protect them against foreign competition. For example, IT firms were given tax holidays by the government a few years ago when the industry was still in the nascent stages in India. The firms were not required to pay taxes for some years from the date of their establishment. Conversely, some countries offer sops to foreign players to encourage foreign investment that can aid development in the country.

### Exhibit 23.3

#### Indian Hotels and Cultural Differences

Though many organizations give extensive training to service personnel to cope with cultural differences, it cannot prepare them totally. Much has to be learnt by personal experience. In the late 1980's, Indian Hotels acquired St. James Court in London. Christine E. Jamal, vice president of Indian Hotels, was sent to the new hotel along with a small team. The new hotel had yet to hire sufficient staff. Therefore, the managers performed some of the of customer service duties.

In India, service personnel go out of their way to serve customers. Christine, therefore, approached customers standing at the counter and asked them whether they wanted any help from her. However, the guests did not like the way Christine approached them. They considered it as an invasion of privacy.

Christine realized that foreign travelers did not like being given too much attention. A few days later, a foreign tourist who suffered an injury shouted at the hotel management for its failure to get doctor in to treat him. Christine had a tough time convincing the tourist that the hotel cares for him and would do all that required to get him treated quickly. It was then that she learnt that foreign tourists did not like to be left alone on all occasions. If they had some problem, they expected the hotel staff to give attention to their problem and take steps to solve it immediately.

*Adapted from Irshad Daftari, "Indian Hotels," Business World, 7 June, 2004.*

#### Restrictions on foreign companies' entry

Some countries do not allow foreign companies to establish wholly owned subsidiaries. Some impose a ceiling on the investment that can be made by foreign companies. In some cases, some of the industries or sectors can be closed to foreign players. For example, foreign companies cannot invest in the agricultural and plantation sector in India. Similarly, a foreign company is not allowed to hold more than a 24% stake in a small-scale industrial unit in India.

#### Infringement of copyrights and trademarks

Apart from these barriers, foreign service organizations also face the problem of violation of copyrights by local firms. Some local firms market their services using the trademark of a well-known foreign service organization. This is primarily because of the failure of the local government to strictly enforce copyright laws. Firms like Microsoft, Oracle, etc. face problems with the sale of pirated copies of their software in many countries.

## Cultural Barriers

Though convergence of tastes and preferences can be seen in some developing and developed countries, it is limited. There is a still a large cultural gap between the vast population of the eastern part of the world and that of the western countries. People in developing countries from the high-income group or socio-economic class, who get exposed to western culture, are influenced by it. There is still a large section of the society in developing countries, which is unexposed to and uninfluenced by the western culture. Therefore, differences still do exist in cultures, posing challenges to international service organizations. The cultural barriers arise from differences in language, customs and beliefs, values and attitudes, lifestyle, etc. (Refer to Exhibit 23.3).

#### Language

People in different countries speak different languages and this poses difficulties to service organizations in effectively communicating with customers. Communication with internal as well as external customers, as we have already studied, is very

important for service businesses to survive and flourish. In the absence of proper translation of messages from one language to another, service organizations can communicate unintended messages and land up in trouble.

### Customs

Different countries have different customs and manners. “Customs are established practices, while manners are behaviors that are regarded as appropriate in a particular society.”<sup>3</sup> In some countries, people value time immensely and expect others to do the same. For example, say two parties from two different countries have an appointment at 5.00 p.m. The first party from country A values time immensely and is there at the appointed venue five minutes before the scheduled time. The second party of country B however, does not value time and reaches the venue 10 minutes late. This will naturally annoy the first party, and he would cancel the business dealing.

In some countries, it is customary to make or avoid some gestures to show their respect to the other party. The management of a service firm should learn this business etiquette to maintain positive relations with clients and partners.

The cultures of countries can be classified into low context and high context cultures. Most western countries have low context culture. In a low context culture, what is written in a statement is what is understood. Whatever may be the circumstances, the meaning of the statement will always remain the same. In a high context culture, the words and written documents are given greater importance. Japan is an example of a high context culture. Here, the situation in which a statement is made or written is more important than the statement itself. Therefore, international service organizations should be careful in understanding the differences between these cultures and coping with them. Hofstede’s model of cultural differences between nations also helps in better analysis of these barriers.

### Values and attitudes

Values and attitudes differ from society to society. For example, most Muslims consider the pig as inauspicious. Hindus revere the cow as a holy animal. Therefore, international service organizations involved in the hospitality industry should take special care not to offer beef or pork so as not to hurt the religious sentiments of the people. McDonald’s for example, takes special care to avoid beef in its menu in India.

### Lifestyle

Lifestyle varies across countries. The way people spend their money, leisure time, etc., differs from one country to another. For example, earlier, people in India emphasized saving. There were not many who spent lavishly. However, things have changed and more and more Indians are willing to spend more on lifestyle and luxury items. The status symbols used by people to reflect their status, also differ from one country to another. For example, in India, most people value assets like jewelry. They try to accumulate as much silver and gold as possible. However, in the west, people prefer to buy luxury products like expensive cars. The way people spend their leisure time is also different. People’s perception of beauty and aesthetics also varies across countries. The knowledge of these differences will help service organizations choose the right dress code for employees, the right architecture for buildings and design proper service offerings and marketing programs.

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<sup>3</sup> Rungman, Hedgetts, *International Business, A Strategic Approach*, (New York, McGraw Hill) pg.130.

## **Services Marketing**

### **Financial Barriers**

Global service organizations also face financial barriers. Organizations planning to expand globally need more funds than those operating locally. Even though the returns are higher, they have to bear higher costs. These costs include the costs due to exchange rates and taxes, investment in a new business in terms of set-up costs, logistics solutions, communication systems, traveling etc.

#### **Changes in currency exchange rates**

Different countries have different currencies. Depending on the economic condition of a country, the value of its currency keeps changing and so does its exchange rate. This poses problems in payments and collections for global service organizations. Any appreciation in the currency of the host country will result in the service provider receiving fewer of home country currency units from clients. Sometimes, they may also face double taxation, in both the exporting and importing country or the host and the home country. This will obviously affect the profitability of the organization. Before making an investment, service organizations should look for countries, which have double tax avoidance treaties with their own countries.

#### **Problems with logistics**

Service organizations need to invest in various resources to run their operations successfully in a country. For instance, package carrier companies have to invest heavily in setting up warehouses at appropriate locations. DHL invested about \$200 million to expand its facility in the US near Kentucky international airport in Cincinnati in 2002. BPO centers need to make a huge investment on people, equipment and infrastructure. According to an IDC estimate, about \$7,500 per seat needs to be invested to set up a call center<sup>4</sup>.

Fast food outlets like McDonald's have to procure the best quality raw materials and other inputs to serve quality food to customers. McDonald's has to source bread, bun, batter mixes, meat, cheese, sauce, potatoes and other vegetables from the best suppliers, which means a lot of investment.

### **FACTORS INFLUENCING SUCCESS OF A GLOBAL SERVICE FIRM**

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Many factors such as innovation, excellence in customer service, efficient operations, etc., contribute to the success of an organization at the global level. A service firm needs to conduct a complete SWOT analysis before taking any major strategic decision. The success and survival of a company depends on its understanding of the differences among its countries of operation in terms of culture, consumer behavior, etc., and its ability to accommodate the differences.

Before entering a foreign country, a service organization needs to check if it has sufficient resources to venture into the market, if the mode of entry is appropriate, if the demand in the market is adequate, if the management style is appropriate, and if it has the right people to deal with suppliers, the local authorities etc. For example, Walt Disney had staffed its Latin America office located at Miami to take care of all the licensing arrangements in Latin America<sup>5</sup>.

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<sup>4</sup> "Will BPO margins be stable at 20%," Cyber Media Online Limited (CIOL), 5 August, 2003 (<http://www.ciol.com/content/search/showarticle1.asp?artid=47820>).

<sup>5</sup> Walt Disney, Global Strategic Management Case Studies on Fortune 500 Companies, Transworld University, Vol II.



### Select the right entry mode

An organization can enter a foreign market through several modes, as discussed earlier. However, it should choose its entry mode carefully so that it does not affect its competitive advantage. If it chooses to enter through a strategic alliance, for example, it should ensure that the partner has a strong hold in the market and can support it in gaining a strong foothold. Moreover, the partnership should not conflict with the business interests of either party and should benefit both. If the partnership terms favor one party, then the relationship may not last long because the losing partner will be on the constant lookout for exiting from the partnership. Similarly, if an organization decides to enter a foreign market through merger or acquisition, it might face different kinds of difficulties. It might have difficulties in merging the operations of both firms, changing the culture of the workforce, leveraging synergies etc. If an organization wants to establish a wholly owned subsidiary in a foreign country, it should look for the right location to gain benefits like cheap infrastructure, government support, educated workforce, low salaries, political stability, security, favorable laws and regulations, etc.

### Select the right marketing research methods

In some countries, people do not want to answer personal questions and dislike being monitored. It would be difficult for organizations to conduct marketing research in such countries. Therefore, service organizations should use indirect measurement techniques, which do not involve approaching customers directly. Rather, they may have to collect information from service providers who can provide reliable data and information on consumer behavior.

### Customize the service offering

Global service providers should customize their services to suit the tastes and preferences of customers in different countries. For example, in some countries, people do not like invasion of privacy. In such situations, service organizations such as those in hospitality industry should ensure that their service personnel do not take the initiative to try and entertain customers. However, in some countries people may expect the service personnel to keep enquiring about their needs and taking care of them. In such cases, the front-line personnel should be pro-active and approach customers before they feel they are not being attended to. Similarly, during an economic downturn, companies might need to customize their service offering to suit the existing needs of the customers. This can help the firms create a demand for their services and improve their business even during a period of recession (Refer to Exhibit 23.4 to understand how Bell Atlantic customized its service offering for its Indonesian customers).

### Train the service personnel

Service personnel should be educated about the differences in the cultures of the customers they serve. For example, the service personnel in a Chinese restaurant need to realize that they have to treat an Indian customer and an American customer differently. The service personnel should be trained to customize their service offering and delivery to suit the customer's preference. In some countries, people are not comfortable talking to a salesperson on the phone. They expect the salesperson to visit their home/office and explain the service offer to them in person. Service personnel need to feel trained to catch the pulse of the customer immediately and change their approach strategy accordingly.

### Select the right promotion strategy

In some countries like Japan, comparative and aggressive advertising is unacceptable. So, in these countries, service firms should emphasize the benefits of their service offering rather than point out the drawbacks of the competitors' service offerings. In

### Exhibit 23.4

#### Bell Atlantic in Indonesia

Bell Atlantic's wireless group of International cellular companies took various steps to maintain their profitability in the countries in which they operated. In Indonesia, the economic crisis of 2000 made it difficult for people to bear the expenses of communication services. Bell Atlantic identified that customers could be retained if it introduced flexibility in its services. By using a special IN platform, Bell Atlantic allowed its customers to switch between post-paid service and pre-paid service according to their requirements. This enabled customers to keep a control on their spending. Also, the phone numbers did not change in the process. If the customer's economic condition improved, he could request the company for a post-paid service. The post-paid service would allow him to obtain international roaming facility, detailed bills and other convenient features.

The IN platform used by Bell Atlantic enabled customers using pre-paid cards, to renew them through ATM machines. They could also call customer service representatives at Bell Atlantic and get the pre-paid card delivered at home.

*Adapted from Robert Campbell, "Globally IN a Critical Tool," Wireless Review, 15 April, 2000.*

countries like the US and India, where such advertising is allowed, at least in some sectors, service organizations should use the opportunity to explain to customers how their service offers outweigh those of their competitors. For example, in India, ICICI Bank advertises that it does not charge any processing fee from customers who apply for home loans. HDFC claims that it charges a processing fee for home loans, but provides many valuable supplementary services unlike its competitors, who might not charge any processing fee, but include hidden costs for customers.

## PROSPECTS FOR THE GLOBAL MARKETING OF SERVICES

According to an UNCTAD (United Nations Conference on Trade and Development) report of 2002<sup>6</sup>, banking and insurance, business services, tourism, transportation, computer-related services and retailing would attract FDI in the coming years in the Asia and Pacific region. In Central and Eastern Europe, services construction, real estate, transport, education, health, computer-related services; in Latin America, banking and insurance and hotels, restaurant, tourism services and in other developed countries, transport and business services are expected to attract considerable FDI flows. This indicates the rapid growth of the service sector across various countries in the world.

Standard Chartered Bank, headquartered in London operates in more than 50 countries out of which, the majority are developing countries in Asia, Africa and Latin America. The bank's operations in China account for 30% of its revenue. It is planning to increase the percentage of revenue contributed by Indian operations from 12% to 30%. Many global insurance companies like Allianz, Prudential, ING, etc., are actively operating in India through strategic alliances. In the telecommunications industry, players like Hutchison are aggressively expanding across the globe and are giving tough competition to local players in India. On the other hand, players from India like Bharti Telecom and Reliance have plans for global expansion. Indian IT firms like Infosys, Satyam, Wipro, and TCS are renowned world-class IT service organizations, serving many Fortune 500 clients. They are now gradually moving from lower-end services to higher end services, offering more value addition to their customers. Just healthcare industry and tourism in India are attracting many foreign

<sup>6</sup>“FDI Prospects by Industry,” UNCTAD Report 2002,  
<<http://www.unctad.org/Templates/Page.asp?intItemID=2996&lang=1>>

customers, creating excellent business opportunities. According to the Indian ministry of external affairs, the healthcare industry in India generates about US\$17 billion, which amounts to 4 percent of the country's GDP. The ministry also estimated that hospital services, healthcare equipment, managed care and pharmaceuticals would increase by 13% annually for the next six years<sup>7</sup>. In India, the concept of medical tourism is fast catching up, as people who come from foreign countries for treatment, also visit many tourist places. Native Indian therapies like ayurveda and yoga compete with modern hospitals like Apollo in offering treatment to customers.

During the WTO talks, it was developed countries like the US and the UK that encouraged developing countries to sign agreements like GATS to speed up the process of globalization. With the pace of globalization picking up, organizations are under pressure to cut down costs and offer their services at competitive prices to customers. So, they are outsourcing most of their operations to locations where they can be carried out effectively and efficiently. This will offer firms the dual benefits of low cost and quality service. India is at the forefront of the business process outsourcing industry, making the best of the BPO opportunities. According to the Nasscom-McKinsey study, the BPO industry is expected to generate revenues of \$17 billion by 2008. However, people in developed countries see this shifting of jobs and business to developing countries as a practice that could deprive them of their livelihood. They are organizing protests against outsourcing and are even against organizations in their countries hiring professionals from developing countries. They believe that this practice is depriving local citizens of jobs and increasing artificial unemployment. If the governments in these nations decide against outsourcing, it will mean a major loss for Indian industry. At the same time, it would also be a loss of business opportunity for the foreign companies as they lose their competitive advantage of low cost and efficient service. This could lead to a situation where they lose out to their competitors from other countries.

## SUMMARY

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Globalization refers to the free movement of goods, services, people, capital and technology across the globe. Globalization has been given major thrust by agreements like GATS signed by several countries in the world. The major factors that drive globalization are changes in social factors, technology, political and legal conditions, the competition scenario and the urge to gain a competitive advantage. Organizations can enter foreign markets using different modes of entry. These include exporting, turnkey projects, licensing, franchising, joint ventures, wholly owned subsidiaries, strategic alliances, mergers and acquisitions and piggybacking. Though many organizations aim for globalization, only a few succeed in it. The parameters that can be used to measure the level of globalization achieved by an organization are presence in strategic markets, location of value-adding activities, achieving a desirable balance between globalization and customization, consistency in quality and pricing of services, and responding to the changes in the environment. Some of the major challenges faced by organizations in establishing and expanding their operations in foreign markets are legal barriers, cultural barriers and financial barriers. The factors that contribute to the success of a global firm are selecting the right entry mode, selecting the right marketing research methods, customizing the service offering, training the service personnel and selecting the right promotion strategy. Though the prospects for globalization of services marketing are high, some forces are opposing it and trying to slow down the pace.

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<sup>7</sup>Shehla Raza Hasan, "India Bids for Health Care Tourism,"  
<[http://www.atimes.com/atimes/South\\_Asia/EG19Df03.html](http://www.atimes.com/atimes/South_Asia/EG19Df03.html)> July 19, 2003

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**Part VII**

**Marketing Services – Specific Industries**

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**Chapter 24**

**Tourism & Travel Services  
Marketing  
(Hotel, Tourism & Transportation  
Services)**

# Hotel Industry

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**In this section we will discuss:**

- Major Characteristics of the Hotel Industry
  - Market Segmentation
  - Marketing Strategy
  - Marketing Mix
  - Recent Trends in the Hotel Industry
  - Hotel Industry in India
- 

The hotel industry is a part of the hospitality industry, along with other sectors like travel, tourism etc. A change, either positive or negative, in any one of these associated industries will affect the hotel industry. Further, the demand for the hotel industry is bound to change due to changes in government rules, business cycle and economy cycle, and with festivals, weather changes, security issues, tourism development etc. In addition, political, economic, and environmental changes will also have an impact on the hotel industry. Thus we see that survival in the hotel industry successfully is not an easy task.

The hotel industry needs a very professional and planned approach to emerge successfully from any of the above-mentioned situations. During crises in the industry, the right initiatives can be taken by clearly understanding the customer types and segmenting them accordingly. Further, adopting the right marketing strategy in view of the changing environment and employing marketing principles to design and promote unique services will help to win over competitors.

In this chapter, we shall discuss the major characteristics of the hotel industry, market segmentation and developing marketing mix. Further, we shall also discuss the recent trends in the industry and the hotel industry in India.

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## MAJOR CHARACTERISTICS OF HOTEL INDUSTRY

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Globalization has brought about many changes in various industries, including the hospitality industry. New dimensions of customer service have emerged and the customers' basic perception of the service has changed. With increased awareness and exposure, customers today desire and expect a lot more when compared to customers a few years back. Today's consumers demand more convenience and communication facilities. They expect superior service from service providers. An understanding of the basic characteristics of the hotel industry will help us analyze the industry, its customers etc. in detail.

- *Perishability:* A hotel's services i.e., the availability of its rooms, is perishable, which implies that if a certain number of rooms remain vacant for a day, their capacity goes unutilized. The capacity lost or wasted on that day cannot be utilized on another day. Therefore, the revenue from those vacant rooms for the day are lost and can never be gained again.
- *Location:* The location of a hotel is fixed and cannot be changed immediately or frequently. Therefore, hotel owners should choose places that are strategically placed and convenient for customers to visit. For example, the Taj Leisure Hotel in Madurai is located atop a hill, with a panoramic view of the temple city and the Kodai hills. This suits visitors who come to the place usually on religious or leisure trips. However, Taj President in Mumbai, a business hotel, is located near



the city's main business district and is close to recreational and shopping centers to suit business travelers.

- *Fixed supply:* A hotel has a fixed number of rooms and its capacity cannot be increased overnight. If a hotel has no vacant rooms and customers still keep asking for them, it means that it has lost business. Therefore, service providers should analyze and decide the number of rooms and their denomination (single bed, double bed etc.), to optimize capacity utilization.
- *Seasons:* Hotels occupancy rates vary according to the seasons and the type of hotel. For example, a business hotel will have low occupancy on weekends, as corporate houses do not work on weekends, while a holiday resort has high occupancy rates during weekends as families are free for short trips.
- *High fixed costs and low variable costs:* A high capital investment is required to build and furnish a hotel. It needs further investment on hiring, training, and maintaining the employees and maintaining the hotel. The fixed costs are quite high when compared to the variable costs. Therefore, the profitability increases as the occupancy increases.
- *Competition:* Globalization has intensified the competition in the industry with the entry of many international chains in India. However, it has also improved the existing service conditions and defined a new set of standards in customer service. Many international hotel chains like Hyatt, Kempinski and Sheraton have entered the Indian hotel business, most of them through collaborations with Indian partners.
- *Value-added services:* Hotels have learnt to enjoy repeat business by retaining existing customers, and to attract new customers by offering them value-added services like health clubs, amusement centers, shopping malls and communication facilities.

## MARKET SEGMENTATION

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Market segmentation involves grouping potential customers based on similarities they exhibit when they make purchase decisions. Often, service providers segment customers based on similarities in their wants, requirements, and purchasing power. Market segmentation helps a service provider to choose and target a segment that can be successfully served, given the capabilities of the service provider. The service provider should choose a segment that will give him a sustained profitable business and help him enjoy a good market share. A hotel industry can be segmented either geographically or demographically. Let us now discuss these two in detail.

### Geographic Segmentation

Geographic segmentation of the market involves dividing the whole market based on the needs of the people living in those geographical areas. However, in this case, it is based on the needs of the people visiting those geographical areas. Customers need hotels when they are visiting a place on a business trip or on a leisure trip. Based on this, the market can be segmented as tourist resorts or places, and commercial or business centers.

- *Tourist resorts:* Tourist resorts attract guests on long vacation or a short holiday trip. In India, hill stations like Shimla, beach resorts like Goa, historically famous places like Jaipur, places of aesthetic importance like Agra, temple towns like Madurai and places of scenic beauty like Kerala can be categorized as tourist resorts. The Taj group, The Oberoi group, ITC Hotels and many local hoteliers operate in these resorts and enjoy good business, especially during holiday season.

## Services Marketing

- *Commercial centers:* Most hotels situated in the country's commercial hubs, like Mumbai, Bangalore, Delhi, and Hyderabad, aim to serve the corporate customers who travel for business purposes. However, most of these cities are also known for their beautiful palaces, forts and temples, or other places worth visiting. Therefore, they can have hotels that cater to both business as well as leisure travelers.

## Demographic Segmentation

Demographic segmentation of the market is based on the purchasing power of the customers and the purpose for which they use these hotels. Demographic segmentation divides the entire market into premium, leisure, and budget hotels. Let us now discuss each segment in detail.

- *Premium segment:* Hotels in the premium segment aim to attract business and corporate customers, upper-class leisure travelers, NRIs and foreign tourists. This segment includes 5-star deluxe and 5-star hotels. Leela Kempinski, Taj Lands Mumbai, The Resort, Sun-N-Sand, Le Meridian are some of the hotels in this category, in the city of Mumbai. Companies normally sponsor their top management executives to stay in premium hotels. NRIs and some of the foreign tourists who can afford to do so choose to stay in these hotels. These hotels provide facilities like CD/VCD/DVD players with a good collection of cassettes, 25" interactive television, fax machines, mini-bar, voice mail, coffee bars, online connectivity, swimming pool, recreation facilities, health spa, etc.
- *Leisure segment:* These hotels are visited by customers who have leisure time or who take off time from work to spend with their families. This segment consists of hotels that appeal to the rich and the upper middle class people. Some business and corporate travelers also visit these hotels. This segment consists of 3- and 4-star hotels. Most hotels of The Taj Group in Kerala, with their health clubs and other facilities, appeal to the elite; whereas, some hotels provide limited options and price them accordingly for the middle class customer segment. Hotel Heritage, West End Hotel, Best Western, The Emerald and The Residence are some of the 3- and 4- star hotels in Mumbai. These hotels provide facilities like individual air-conditioners, 24-hour room service, direct dial telephones, television with satellite channels, a multi-cuisine restaurant and bar, wake up call service, state-of-the-art gym, health spa, swimming pool, recreation room etc.
- *Budget segment:* The hotels in these segments aim to attract people who travel for personal or business purposes. These are budget conscious customers who are not keen to pay high prices. This segment includes 2-star hotels and other hotels. Hotel Park View, Hotel Midland and Pals Hotel in Mumbai are some examples. Most of these hotels have multi-cuisine restaurants, banquet halls, air-conditioning, TV, direct dial telephones etc.

## MARKETING STRATEGY

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The competition in the Indian hotel industry intensified in the last decade, with the entry of foreign hotel chains into the market. The exposure of Indian customer to services abroad has made him more discerning and therefore more demanding. At the global level, the demand for hotels has been fluctuating because of the various economic and political changes in countries across the globe. The September 11 attacks, SARS, and the recent Iraq war affected the tourism and travel industries badly, which in turn affected the hotel industry.

The present day hotel industry is highly dependent on the economy of the country. During the economic recession that continued till 2002-03, companies cut down their budgets and stopped providing accommodation for their top management executives

in premium hotels. Further, these executives were made to stay at company guesthouses instead of hotels, irrespective of their position in the company. Families too cut down on travel and even if they had to stay in hotels, they opted for more economical tourist cottages rather than high-priced hotels. All this had an adverse effect on the hotel industry. However, business seems to be on an upswing for the hotel industry once again, with the economy showing signs of growth.

Indian hotels, especially those in the premium and business segments, faced a threat from the international chains entering the Indian market. However, they have learnt to cope with the competition and offer better services to meet customer expectations. Technology, though it is a boon for the customer and some service providers, has also been a threat for those hotels that could not adopt it due to budgetary constraints. Some technological developments have made it possible for hotels to innovate new methods of offering service to the customers in a more convenient and faster way. For example, some premium hotels offer the facility of online booking to their guests, who can get confirmation through an SMS; corporate clients can even check out through an SMS. Some hotels provide newspaper kiosks, which offer various international newspapers real time. Further, some hotels also provide cyber butlers who help their guests in solving technical issues while working on their laptops or systems in their hotel rooms.

Another positive change is the globalization of the economy. Many foreign hotel chains like The Marriot and The Hyatt have entered the country and increased the standards of customer service in the industry. Globalization has increased the number of multinational companies in India, which has also increased the business between India and many other countries in the world. This has led to an increase in business travelers visiting India and come as a boon for the hotel industry in the country.

## MARKETING MIX

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After formulating the marketing strategy based on market segmentation, the service provider needs to adapt the marketing mix elements to suit the strategy. Let us now discuss the product, price, place, promotion, processes, people, and physical evidence for marketing the hotel industry.

### Product

The hotel product consists of many components, namely accommodation, food and beverages, shops, car rental services, recreation, and health. However, accommodation and food and beverages are given more importance than other components, as the others are considered supplementary services that augment the core service. A hotel can choose a product line after considering the expectations of the customer segments that he has selected to serve, and the culture and fashion prevailing in that region. Identifying the customer segment is based on the type of customers that visit the city (business or leisure). The service provider may also decide to have more single or double rooms or suites, depending on the needs of the customer base.

A service provider should analyze the above factors before coming up with a product line, as a hotel lacks flexibility to design rooms according to customer wishes. That is, once the location and physical structure of a hotel is finalized and done, it cannot be altered. For example, a hotel cannot satisfy a customer who requires a single room when there are only suites available in the hotel at a given time. However, innovative hotel architects are trying to introduce an element of flexibility to customize accommodation according to customers needs.

Another important aspect of a hotel product is food and beverage. Many hotels have in-built multi-cuisine restaurants and bars, which serve their customers with a variety of delicacies from different parts of the world, and offer them a wide choice of

## Services Marketing

beverages. However, with the intensifying competition in the hotel industry, hotels around the world have started to concentrate on other aspects like recreation, shopping, health clubs, spas etc. Some premium Indian hotels have a health spa, while most of them have a gymnasium and a recreation room with pool tables etc. in the hotel. These will add value to the customer service and help the hotel gain a competitive advantage over other players.

## Pricing

Pricing of hotel rooms is a very important aspect and depends largely on the customer segment the hotel serves, economic conditions in the country or the world, government regulations, competitor prices in that region, and seasonality. In India, the multiple tax structure has a cascading effect on the prices, with taxes comprising 30-40 percent of the price charged. The situation is quite different in most southeast and East Asian countries, where the tax varies between 5-20 percent of the total charges.<sup>1</sup> This makes the hotels in those countries more cost effective.

Premium segment customers consider price a representation of the quality of service and are ready to pay high prices to enjoy excellent quality. They consider staying in an expensive hotel a status symbol. However, by pricing their services too high, hoteliers can drive away some potential customers. They also stand the risk of losing their customers if they do not meet their expectations of value delivered. On the other hand, if a hotel charges very low prices, customers might perceive them as low quality services. However, low prices may suit customers belonging to the middle class and low-income segment.

Hotels offer discounts on prices when rooms are booked for tourist groups or when companies book rooms for their executives on a regular basis or when airlines book rooms for their crew etc. The economic condition in the country also affects the pricing of hotel rooms. If the economy is experiencing a boom, there is a lot of business activity, which increases the traffic of business travelers. People too tend to travel more and go on vacations, availing of hospitality services. During these situations, the demand for hotels is high and therefore customers do not mind paying a little more for their services. However, a hotel should analyze the prices of its competitors in the same region before setting its prices. Finally, prices should represent the value offered to the customer.

## Place

The distribution system in hotels largely depends on other service industries that serve similar customer segments. These industries include travel, tourism, and transportation (airlines, railways, roadways etc). Many hotels enter into agreements with tour operators, travel agents, shopping malls, entertainment providers etc. and provide all these services as a package to tourists. Many hotels also adopt co-operative distribution, where they pass on the traffic to their neighboring hotels during peak demand periods. This is a regular practice, which happens for mutual benefit, and it has no impact on the main business and the regular intermediaries a hotel deals with. Another way in which hotels distribute their services is through franchising. This aspect is dealt in Chapter 13 in detail.

## Promotion

Hotels can choose to communicate and promote their services to potential customers either directly or indirectly. Direct promotion is possible through sales promotion, direct mail, personal selling, and advertising, whereas indirect promotion is possible

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<sup>1</sup> Sector Preview-Hotels, <http://www.indiaonline.com/bu03/sepr/hote.html>, March 15, 2003

through publicity and public relations. However, the big hotels in India use advertising, sales promotion, public relations, and publicity to promote their services.

### Advertising

The important hotel products that can be advertised include room occupancies, dining facilities, facilities to stage conventions, meetings, conferences, and reservations for their hotels in other cities or countries. Further, hotels can also advertise their services like festivals, parties, sophisticated entertainment, buffets, special dinners, and discotheques.

An important objective for hotel advertising is to increase the occupancy and create awareness of the available facilities and of any new facilities that have been introduced for the customer. Further, this advertising also helps to attack the negative remarks or impressions created by competitors or media. Advertising also helps in improving the image of the hotel among customers.

Hotels advertise their services through print and electronic media. Print media advertising is done through publishing ads in newspapers and magazines. Electronic media advertising is done through ads over television, radio, Internet, etc. International hotels chains like the Taj advertise their services on various national and international television channels.

### Sales promotion

Sales promotion can be adopted as an ongoing function, or for some products offered by the hotel. For example, sales promotion can aim to increase room sales or the food and beverage sales. Sales promotion can be offered through trade promotions, consumer promotions and displays. Trade promotion schemes to sell hotel products include price-off promotions, premium offers, trade contests, loyalty schemes, guarantees, credit schemes, co-operative advertising, training schemes, honeymooners return trip etc. Consumer promotions aim to convince the hotel guest to buy a particular hotel product during a certain time. For example, Jet Airways and Choice Hotels together launched a promotional scheme in 2002, according to which, passengers traveling on a return ticket on Jet Airways on certain sectors can pay an additional amount of Rs.500, and get a room for one night in Quality Inn and Comfort Inn hotels of Choice Hotels. Finally, the displays aim to draw a picture of the hotel product through show cards, display units, posters etc. Sales promotion as an ongoing function includes classic sales calls, travel workshops, sales seminars, direct mail promotion etc.

### Public relations and publicity

Public relations aim at improving the total image of the hotel, and creating goodwill in the market. Public relations should be a continuous effort. However, a hotel should vary its public relations programs according to the type of audience, like guests, media, government agencies, community and employees etc.

Public relations aim to achieve publicity through various programs. Positive publicity can be attained through the print media, television, cinema etc. Articles, news items and press releases, interviews of top company officials etc. all contribute to maintaining good public relations and gaining publicity. Being socially responsible and committed to the society's betterment also contributes to promoting a hotel. ITC-Welcom Group for example, propagates and commits itself to a greener and healthier environment. They ensure that each hotel of the group has its own program, encompassing local participation, creating awareness among employees and internal conservation through energy-saving gadgets and environment-friendly material. Guests are also encouraged to be part of the campaign. Such campaigns project the hotel in a good light and create awareness about the company among the public.

## **Services Marketing**

### **People**

People play an important role in the hotel industry, as it is people who offer hospitality and care to customers. They can in fact be a source of achieving competitive advantage over competitors. The Taj group, for example, projects its service personnel as caring and dedicated in their advertisements. The group stresses on a mentoring and buddy system in the organization to help people adapt and grow. They also insist on overseas exposure to create a talent pool of people who can work in any part of the world. This is very important because people from different countries and cultures visit hotels. Their needs and expectations might be different and service personnel need to understand and cater to their different needs. Therefore, every hotel should have a well-developed hiring system and induction and training programs for their people. People should be well equipped with the processes of service production and delivery.

### **Physical Evidence**

As services are intangible in nature, hotels should provide necessary evidence to reduce the perceived risk of customers. This may include providing them with facilities like 24-hour wireless communication (e-mail, Internet) television, in-built bar, health club, coffee shop, swimming pool etc. Further, the hotel surroundings should be well maintained with a spacious lawn/garden and a good parking area. A warm and well-designed reception with displayed certificates of service quality excellence can go a long way in creating a good impression in the customer's mind.

The brand name also helps in reducing the perceived risk of customers. For example, when a traveler visits a new city or country for the first time and looks for a hotel, he would prefer a Taj or an Oberoi hotel over other unknown names. This is because the brand is well known in the market and has an image associated with it. The traveler trusts the hotel better, just for its brand name.

### **Process**

A hotel should develop processes that reduce idle time and result in timely delivery of services. Further, hotels should automate processes wherever possible. This will save time and result in quick and efficient delivery. However, a hotel should not completely depend on automation, as an element of personal touch will help a hotel to gain advantage over its competitors. For example, when a customer calls up a hotel for an enquiry, he would prefer to be greeted by the service personnel who can give customized answers, rather than an automated answering machine. However, automation in areas like room reservation and tariff calculation would add to the convenience of customers and also improve the efficiency of the hotel.

## **RECENT TRENDS IN HOTEL INDUSTRY**

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With globalization and improvements in technology, hotels have entirely changed the way they offer services to the customers. Let us now look at some of the recent trends in hotel industry:

- Hotels are adopting management information systems (MIS) to make information transfer faster and easier. The components of a hotel chain share a common database to offer customized services to their customers. Further, technology has enabled hotels to market their services on the World Wide Web (WWW), make reservations online, and serve their customers efficiently.
- Recently, hotels have targeted the female business traveler segment, which has increased in size in the recent past, with more women in the professional set-up. Hotels provide various special services like health clubs & parlors, short cooking classes, extra security, etc. for their women customers.

- Hotels are making their presence felt using unique promotional activities. Thus, they are hoping to induce travel habits into their domestic travel segments.
- The occupancy levels in hotels across the world have increased due to increase in domestic and international travel. Today, there are more enthusiastic travelers willing to explore the world, when compared to a few years ago.

### HOTEL INDUSTRY IN INDIA

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The hotel industry in India has seen some dramatic developments in the past few years. Until a few years ago, there were very few reputed hotels/hotel chains in India. This scenario has completely changed and the number of domestic and international hotels in the country has increased tremendously. The disappearance of the traditional 'choultries' has in a way led to the development of hotel industry in the country. Many foreign hotels entered the Indian scene and transformed the service standards. Further, new standards of customer service have been set by hotels, owing to developments in technology.

Government announced many sops to hotels under the Exim Policy of 2003-04 and the Mini Exim Policy of 2004-05. These policies allow duty free imports by hotels. They also offer special benefits to heritage hotels, 1- and 2-star hotels and stand-alone restaurants.

The changing lifestyles of people in India and their increasing income levels have led to changes in their travel habits. People are more willing to travel now and spend money on this luxury. This has led to the setting up of more holiday resorts, private villa, etc. Exhibit 24.1 shows an example of the huge investment made by the Oberoi hotels for their premium and international tourist segments.

As the travel habits of people in the country change, the demand for hotels will change accordingly. Therefore, hotels should tie up with travel and tourism companies to induce travel habits among people.

Finally, India's rich culture and heritage has the ability to attract foreign tourists. Therefore, the government of India should develop more promotional activities like the 'Incredible India' campaign and project the country as a holiday destination for foreign travelers.

#### Exhibit 24.1

##### Wildflower Hall

Wildflower Hall is a luxury resort built by the Oberoi group of hotels at a height of 8,250 feet and located in Himachal Pradesh. It is surrounded by 22 acres of cedar and pine forests. This resort is developed for the luxury segment and costs Rs.8 lakh for four nights per person. It is just two-and-a-half hours from Delhi by air and a Mercedes will come to pick up guests at the airport.

This resort has a health spa that aims to provide relaxation by offering various therapies to soothe the nerves. Further, it also offers activities like, river rafting, mountain biking, trekking, archery and horse riding. However, these services are only available for upmarket customers and it is difficult for domestic customers to visit this spot due to the high price.

This resort also aims to attract the business segment by conducting conferences. Business clients like ICICI, OIL, Coke, IOC, Deutsche Bank, and ABN Amro are expected to conduct conferences at Wildflower Hall.

*Adapted from Yeshi Seli, "Wildflower Hall", Business India, May 24-June 6, 2004.*

### SECTION SUMMARY

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The hotel industry is dependent on tourism and travel industries, and together they constitute the hospitality industry. The demand variation in the hotel industry depends on various factors like the economy, socio-political conditions, government regulations, business cycle, weather and seasonal changes, festivals etc. The hotel service is a perishable service with a fixed or limited supply. It is characterized by high investment and low variable costs.

The market for the hotel industry can be geographically segmented as tourist spots and commercial centers. On the other hand, based on customers, the market can be segmented as premium segment, leisure segment and budget segment. The exposure of the Indian customer to international service standards has made him more discerning and demanding. Today's customers expect more value added services from the service provider. To meet the global standards and customer expectations, service providers in the hotel industry have to adopt technological developments. They also have to be customer-oriented in their approach if they have to withstand the competition in the market, which has further increased with the entry of global players.

Marketers have to adopt the marketing mix elements to suit their marketing needs. For example, the product should carry more augmented services to differentiate itself from other service packages in the market. Pricing, promotion, place, process, people and physical evidence, all have to be handled with discretion and innovativeness.

The recent trends in the hotel industry owing to the technological developments and the changing demographics have had a major impact on the way hoteliers conduct their business. The Indian hotel industry has also come of age and is ready to set new standards in customer service.



# Tourism Industry

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**In this section we will discuss:**

- Characteristics of the Tourism Industry
  - Tourism Marketing Mix
  - Recent trends in the Industry
  - Tourism Industry in India
- 

The tourism industry is divided into three categories namely, transportation, accommodation, and tour operators. Transportation deals with airlines, roadways, railways, and shipping. People may adopt any of these modes of travel depending on their budget, time, convenience, and status. Accommodation deals with hotels, club resorts, and inns. Tour operators are people who design holiday packages and take care of all the accommodation and travel needs of the customers. These people have tie-ups with hotels, entertainment spots, shopping malls, etc.

The tourism industry of a country is dependent on the country's tradition and culture, natural resources and scenic beauty, its financial and political status, the status of its economy, its religious inclinations and its architectural beauty and constructions. Tourists visit different places depending on their personal interests. For example, an American interested in understanding Buddhism might visit countries like Japan, Thailand, Cambodia and Myanmar etc. Different tourist destinations hold different attractions for tourists. India for example, attracts tourists for its unique culture, architectural beauty and traditional systems like yoga and ayurveda.

Tourism is a growing industry in many parts of the world. With the improving standards of living, travel and accommodation facilities and the awareness and exposure of the tourist, we see more people traveling across the length and breadth of the globe. Tourists can be of three types. One is the enthusiast who is just keen on visiting new places and enjoying the life there. The other is the researcher, who visits different destinations based on his subject of research. The third category is those who develop an interest in a particular art form like dance or music specific to a country/region and keep visiting the country out of interest. For example, we hear of foreigners interested in Indian dance forms like Odissi and Kathak, visiting India quite often. We can add a fourth category to the list; this consists of people from the West seeking peace and happiness in yoga, and meditation. Most of them visit India annually, spend their time at a nature cure center or ashram and rejuvenate themselves.

## CHARACTERISTICS OF TOURISM INDUSTRY

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As discussed earlier, the tourism industry is dependent on various factors like the location of the country, its culture and tradition, the social and political status, etc. This dependency has resulted in some unique characteristics or features of the industry. Stable locations, huge financial investments, unstable demand and perishability are some of the characteristics of the tourism industry. Let us discuss these in detail:

- **Stable locations:** Tourism locations are fixed and potential customers have to visit these locations for consuming the various services offered. For example, exists if a tourist visiting India wants to enjoy the backwaters, he has to go to Kerala. However, the tourist cannot expect skiing facilities in a place like Kerala as it does not snow there.

## Services Marketing

- **Huge financial investments:** The tourism industry requires huge investments for the development of infrastructure to meet the needs and demands of customers. The government needs to spend a lot on travel facilities like airports and trains, on maintaining and improving tourist attractions and on providing accommodation and entertainment to tourists. Malaysia has heavily invested in the tourism industry and has promoted it excellently. Otherwise, it would become impossible for the government to sustain or increase the tourist inflow. The facilities provided should match the attitudes of the customer segments. Also a tourism destination should be developed according to the regulations of the local government. For example, if there is a restriction locally on the consumption of alcoholic drinks, this should be taken into consideration while developing and promoting the place.
- **Unstable demand:** The demand for tourism products is not stable. For example, the tourist services and destinations are in demand during vacation time or when the weather is suitable. For example, the Swiss Alps enjoy tourist traffic when the weather there is pleasant and just right for everyone to enjoy. People will not visit such places during peak winter in the biting cold and when there is snow everywhere.
- **Perishability:** Tourism products like an airline seat or a room at a hotel are highly perishable and cannot be inventoried. This means that, all the unutilized resources during the low demand season cannot be inventoried and saved for the peak demand season.

Tourists choose their destination, a hotel, or an airline depending on their income level, family lifestyle, and social status. They may also choose to go on a vacation to relax and recharge themselves. Other reasons to go on vacation include visiting friends or family members in or outside the country. Finally, some people look at holidays as a matter of status symbol. For example, many influential and rich families prefer to go on an annual holiday abroad.

## MARKET SEGMENTATION

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Tourists can be divided based on their socio-economic status, geographic differences, demographics, and psychographics.

- The socio-economic status of the tourists determines their spending habits. So, an understanding of it will help tourism companies design customized holiday packages to suit the needs of different segments. For example, some tourism companies might target the middle-class domestic travelers, whereas others may aim to at international travelers.
- Demographic segmentation includes developing tour packages based on the age, sex, occupation, and attitudes of the target segment. For example, a newly married couple may like to visit quiet and picturesque places while a young couple with children would like to visit a place that offers entertainment and fun for their kids.
- Geographics include the destinations that customers in the target segment are interested in visiting. For example, tourism companies can design packages that include the different pilgrim centers in the country. Tourists who are religiously inclined may opt for such packages.
- Psychographics divides the target segment based on personality and lifestyle. For example, Singapore positions itself as a tourist destination for those interested in eating and shopping. These two are said to be the favorite pastimes of Singapore in that order.

## **THE TOURISM MARKETING MIX**

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The elements of the marketing mix play an important role in creating an image of the tourist destination, building awareness of the services, increasing revenues for the industry, etc. Let us discuss all the elements of the marketing mix in detail.

### **Product**

A tourism product includes other services like hotel, travel and transportation. For example, an American tourist visiting India may choose to travel by Pan Am, and stay in one of the Taj hotels. A tourism product should be attractive, provide suitable facilities and offer attractive incentives to the tourists.

Potential tourists decide to visit a certain place depending on its attractiveness. A tourist destination should be of some historical importance, should include celebration of festivals and events, or should offer scenic beauty and relaxation, or fun. Further, these destinations should be well equipped to offer different facilities to the target segment. Facilities may include accommodation, transportation, entertainment, or communication. Finally, a tourist product should be easily accessible. A tourism company should make sure that it provides all comforts in making the tourism destination accessible to tourists.

### **Price**

The price of a tourist package should be decided after the costs involved are analyzed, including the hidden costs, the income level of the potential customers in the market segment, the number of competitors existing in the market and their prices. Also, the prices should cover the investments made in developing and attracting tourists to the destination. However, pricing also depends on the demand patterns, and the objectives of the tourism company, i.e. to penetrate into the market or to serve the up-market segment. For example, some tourist companies target the elite and design luxury packages studded with unique attractions. Others design economy packages to suit the needs of the average traveler. In such cases, a low or reasonable price can be a winning proposition for the tourist operator. The tourism companies should ensure that they effectively communicate these prices to the target audience through appropriate promotional activities.

### **Promotion**

A tourism package can be promoted through the print media, television, radio, the Internet, entertainment programs, etc. The print media may include advertisements in newspapers, magazines, etc. These advertisements should include the various products and facilities offered by the destination, remarks of the customers who have already visited the place, and the ways in which a customer can reach the spot. Promoting via television includes advertising in various national and international channels. Malaysia and Singapore have, for example, use these two media extensively to promote their tourism industry. In India too, different states try to promote their tourism industry using the print and television media. Special programs like 'Musafir Hoon Yaaron' on Star Plus help in promoting various tourist destinations. Further, game shows telecast on TV offer complementary packages to various tourism destinations as gifts to their participants.

Tourism companies normally tie-up with hotels and travel companies or airlines to promote their services. They can also tie up with retail stores, credit card companies, etc. and offer discounted packages to their loyal customers. This will increase awareness of the tourist destination and also promote the services of the tourist operator.

## **Services Marketing**

### **Place**

Tourist destinations should be accessible to all the people in the target segment. These places should be well connected by road, rail, and air. Tour operators can also tie up with the service providers of roadways, railways, and airways to distribute their services. Some tourism companies choose to deal directly with the tourists as a direct distribution strategy.

### **People**

The people involved in promoting, managing, and guiding the tourists should be pleasant and friendly. These people interact with customers and their behavior determines how customers evaluate a tourist destination. An important aspect is that they should have complete knowledge about their job and should provide information to the tourists whenever required.

The government has an important role to play in ensuring that the right people interact with the tourists. Especially in a country like India, the government should take steps to prevent beggars and small time hawkers from pestering the tourists. For example, in India, Varanasi or Kasi, considered by Hindus to be a holy place, is replete with pandas or pandits who bargain and literally force tourists to pay them. Such unpleasant encounters can put tourists off. The government should also take care to ensure that tourists are provided proper guidance and information by tourism authorities.

### **Physical Evidence**

This should involve the tangible aspects of the tourism destination. For example, pictures of beaches, places of historical importance, health clubs, skiing facilities, swimming pools, good hotels and restaurants, etc. can be advertised. Small complimentary gifts like diaries and local artifacts can be given to foreign tourists.

## **RECENT TRENDS IN TOURISM**

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Many countries are promoting tourism and it has become a source of major income for countries like India, Singapore and Malaysia. Tourism is, of course, a big industry in most developed countries like the US, the UK, France and Switzerland. However, political and social instability can affect the tourism industry badly. For example, tourism in America took a beating after the September 11 attacks. The tourism industry is one in which there is high competition. Let us now discuss the recent trends in this industry:

- Sophisticated technology has improved communication with the customers, tour operators in other countries, etc. For example, a foreign tourist might communicate with an Indian tour operator with ease and at negligible cost, through the Internet. In addition, technology is also used to provide facilities that could never have been imagined a few years ago.
- India has promoted itself as a favorite tourist destination branding itself as 'Incredible India.' This promotion has added to India's popularity among international tourists.
- There has been increase in travel due to international business travelers. At the same time, domestic travelers who travel mostly for business purposes do take short vacations with friends or family and visit nearby resorts. This trend is picking up.
- The increase in the number of young people who are earning has also led to an increase in domestic travel.
- There is a high demand for wellness resorts, hill retreats, wildlife resorts, etc.
- Timesharing is another evolving concept, which is discussed in Exhibit 24.1

**Exhibit 24.1**

**Timesharing**

Timeshare is not a new concept to India. However, it is re-gaining importance and popularity among timeshare owners, resort developers, and holiday exchange networks. Many hotel owners and resort developers are using this time-sharing concept as a source of income for financing their other projects.

A popular model in timesharing is the mixed-use resorts. In this model, a hotel owner runs his place as both a time-share resort and a hotel. Unable to resist the temptation, even serviced apartment owners, and real estate developers are experimenting with the concept of time-sharing. The Indian timeshare industry has a 25% annual growth rate and India's time-share industry is growing very rapidly on the world map.

*Adapted from Anushka Jagtiani, "An idea whose time has come", Business India, May 24 –June 6, 2004*

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**TOURISM INDUSTRY IN INDIA**

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Though there is a lot of scope to improve tourism and gain revenues in this sector, the Government of India has taken a longer time to take active steps in this direction than other countries. India lags behind countries like Malaysia, Singapore, and Thailand in promoting tourism. However, it has come up with the 'Incredible India' campaign to promote Indian tourism internationally. The initiative to promote tourism in India was first actively taken up by Kerala Tourism. Today, many states follow Kerala's example in promoting their tourism.

India can attract many tourists because of its rich culture and heritage. Foreigners are attracted to the culture, ayurveda, pleasant and friendly people, art and architecture of the country. Further, the historical importance of monuments like the Taj Mahal, the Lotus Temple, etc. and the temples of the south, have equally attracted the tourists.

The tourism industry should not only concentrate on promoting and selling packages to foreign tourists, but should also induce domestic tourists to use the services. The price of a tourist package is the main criterion for people in India to consider making a trip. Therefore, tourism companies should make these packages accessible and available for the domestic travelers too.

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**SECTION SUMMARY**

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Tourism is a growing industry in many parts of the world. The tourism industry is divided into three categories namely, transportation, accommodation, and tour operators. The tourism industry of a country is dependent on the country's tradition and culture, natural resources and scenic beauty, its financial and political status, the status of its economy, its religious inclinations and its architectural beauty and constructions.

Tourists can be divided based on their socio-economic status, geographic differences, demographics, and psychographics. The marketing mix elements of tourism industry help in creating an image of the tourist destination, building awareness of the services.

India can attract many tourists because of its rich culture and heritage. Foreigners are attracted to the culture, ayurveda, pleasant and friendly people, art and architecture of the country. Further, the historical importance of monuments like the Taj Mahal, the Lotus Temple, etc. and the temples of the south, have equally attracted the tourists. India should concentrate on developing domestic tourism too.

# Transportation Industry

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**In this section we will discuss:**

- Characteristics of the Industry
  - Transportation Marketing Mix
  - Transportation Industry in India
- 

The transportation industry can be divided into roadways, railways, and airways. We shall discuss each section in the chapter with regard to the three modes of transportation. Road transportation in India is governed by individual states. Some individual state governments have given licenses to private travel service providers, who set their own prices. On the other hand, the prices of the state government owned road transportation services are set by the government with the public's interest in mind.

The railways are the second major mode of transportation chosen by the people in India. They are governed by the Railway Ministry of the Government of India. The number of new trains or routes, the frequency of trains, the prices charged, etc. are all the responsibilities of the central government. Most of the lower and middle-class people travel by train in India. In cities like Chennai and Mumbai, there are a number of local trains, which help the huge populations to commute within the city. Recently, Delhi and Hyderabad have started metro trains for the benefit of travelers commuting within the city.

Airline travel is not within the reach of the common man in India. Before liberalization, Air India and Indian Airlines were the only airways operating in the country. There were also many restrictions on foreign flights flying over the country and permission had to be obtained from the concerned authorities for that. After liberalization, the scenario changed completely and the country opened itself up to many private airways to operate their own fleet in the country. This increased competition among the domestic airlines in the country and with the foreign airlines.

In this chapter, we shall discuss the characteristics of the transportation industry, transportation marketing mix, recent trends in the industry, and the transportation industry in India.

## CHARACTERISTICS OF THE INDUSTRY

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The characteristics of the transportation industry include the reach of different transportation modes, unstable demand, dependence on income levels of consumers and perishability of the services.

- **Reach:** In India, roadways and railways share the major responsibility in connecting the rural parts of the country. In fact, more than the railways, it is the roadways that provide access to some of the most remote areas of the country. On the other hand, airlines connect the major commercial, business, and metros of the country.
- **Income level:** The income level of travelers to a great extent the mode of transport they choose. For example, a middle class traveler cannot think beyond traveling in a train for personal purposes. It is usually the rich and the upper middle class that travel by air, apart from company-sponsored executives.

- **Unstable demand:** The demand for a particular mode of transport depends on the income level of the customers, seasons, and purpose of travel. The income level of an individual restricts him to a certain mode of transportation. For example, a middle class bank employee may choose to travel by rail for personal purposes, but when the bank sponsors his travel under the leave travel concession (LTC), he may choose to travel by air. Seasons also allow fluctuations in demand. For example, if the economy is in boom and there is a lot of business activity, there is high demand for domestic and international travel. Further, the holiday seasons increase the demand for transportation. Finally, the purpose of travel may also affect the demand for travel. For example, a middle-management executive who has to travel from Mumbai to Delhi for an important meeting cannot travel by train, as he has to save time. Therefore, he has to choose the airways for his business travel. Demand for travel also depends on the demand for the tourism industry.
- **Perishability:** The products of the three modes of transportation are highly perishable in nature. A seat on a bus, train, or airline, is perishable if it is not utilized on a particular trip.
- The consumer behavior depends highly on their income level and the purpose of their travel.

### TRANSPORTATION MARKETING MIX

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Let us now discuss the marketing mix for all the three modes of transportation, namely, roadways, railways and airways.

#### Product

The main aim of any mode of transportation is to take the passengers safely to their destination and on time. Earlier, roadways and railways did not offer supplementary services like food and comfort. However, the roadways have now introduced hi-tech buses that offer more leg space for passengers and offer entertainment by playing movies on a video screen. They have also introduced special buses in which passengers can sleep comfortably as in a train, with the facility of air-conditioning.

The railways have also augmented their core service by offering food on the train and by increasing the frequency of trains from one destination to the other. They offer special services like exclusive cabins for families traveling by first class, air-conditioned compartments, food and beverages and pillows and sheets. However, these special services come at an extra charge. Passengers opt for different classes of travel depending on their financial status, the purpose of travel, availability of tickets and seasonal changes.

A product of the airways is highly perishable and airlines lose the unutilized capacity on each trip they make. The operational costs are quite high for any mode of transportation and are fixed for each trip. So, any increase in the number of passengers per trip adds directly to the profits of the operator. An airline can also choose to alter the supplementary services attached to the main product. For example, it can alter the type and quality of food, or the newspapers and magazines, or movies offered on a flight.

#### Pricing

In India, the government sets the prices for roadways and railways. Private roadways are not permitted to vary their prices beyond a certain point as it may increase competition for the government run roadways. It is important to sustain the state run

## **Services Marketing**

roadways for the benefit of the masses, especially those in remote areas. The prices of transport change with changes in fuel prices or when the state corporation runs into the red. The prices of railway transport normally remain fixed and change only when the annual railway budget is presented.

Airlines set the prices of their services to cover their costs and offer valuable services to the customer. However, they should set affordable prices that can be borne by the target market. Air Deccan offers a no-frills service at almost half the price as other operators, making air travel more affordable. It offers no food and magazines on the flight, but offers safe and on-time travel to its customers.

## **Place**

Place plays an important role in transportation. In case of roadways and railways, there should be good connectivity to the interior parts of the country and there should be well-laid road and rails to reach these places. In case of airlines, there should be enough space for airports and good connectivity with the domestic and international flight routes. Their route structures should be well mapped in order to save passengers' time and ensure their safety.

Road and rail services can be distributed through the state owned reservation and enquiry counters and through travel agents. Indian Railways has also started offering online reservation and enquiry facilities to its passengers. Airlines distribute their services using more or less the same channels. However, airlines can also have tie-ups with tour operators and corporates for the distribution of their services.

## **People**

People are not given much importance in roadways and railways because they are government owned monopolies in India and people have very little expectations from government owned service providers. The other reason is that the interaction between the customers and the service personnel is very limited. However, in case of the airlines, people play a very important role. They can be an advantage for an airline through their pleasant manners and customer support. Therefore, airlines should hire the right people and train them to understand the importance of customer service and of retaining customers in the world of increasing competition.

## **Promotion**

Promotion is given more importance in airlines than in roadways or railways. The reason is once again the same; they are owned by the government. However, the Indian Railways and the state owned transport corporations still promote their services through advertisements and public interest campaigns. The private road transport providers advertise their services using banners and pamphlets. They paint the company's name and the services provided on their buses. They also tie up with domestic tour operators to promote their services.

Airlines advertise their services through the print media, television and the Internet. Various airlines publish their ads in newspapers, business magazines, entertainment magazines, etc. They develop commercials to attract potential travelers. These commercials are aired on many national and international channels. Recently, the airlines have started promoting their services on the Net too. With the increasing use of wireless communications, they have also started offering services online. Airlines also sponsor events and exhibitions as a promotion strategy. Sahara Pariwar, owner of Sahara Airways, a private airline in the country, sponsored the Indian cricket team. In addition, it has also tied up with many cricketers and movie stars to promote its services.



**Exhibit 24.2**

**Next Generation Aircraft**

Have you heard about an Airbus A380 aircraft that is supposed to fly from Singapore in 2006? It will be the first four-level plane in the world with a capacity of 656 seats. This aircraft will be longer and fatter to provide convenience to the passengers. On this plane, one can order breakfast on the phone; there are marble-tiled bathrooms, mini-bars, gym facilities, etc.

This aircraft aims to provide better connectivity between locations, the facility to use mobiles and the Internet on the plane, good connectivity between international business centers, and most importantly, to be on time. Many other airlines like China's A330 Airbus provide seats that have more privacy and personal space, reading lights, an eight-way back massager, 110-volt laptop power outlet, and storage space for shoes and any other passenger items. What more could any one want with such a comfortable aircraft?

*Adapted from Bhisham Mansukhani, "Aviation Next", *feBusiness Traveller*, May 16, 2004.*

**Process**

The process of offering services for the three modes of transportation has been made simple thanks to improvements in technology. Online reservations, management information systems, adopting just-in-time processes, etc. have improved the efficiency of transporters and offer greater convenience to the customers. Online reservations help passengers save time and effort. With the help of management information systems, all the three modes of transportation can connect to a central database and find out about availability the seats etc. to provide services at any other place. For example, a person traveling from Delhi to Mumbai by train can reserve a ticket for his travel both ways, as the database shows the availability of tickets. Further, the status of reservation can also be known online. Improvements in technology have enabled airlines to use computer-aided-designing to design aircraft that are comfortable to travel.

**Physical Evidence**

Physical evidence plays an important role in reducing the perceived risk of the travelers. It gives evidence on safety, comfort, and timely departures and landing. However, it is not very easy to offer physical evidence to the customer. Customers gather physical evidence from the appearance and maintenance of the buses and trains. However, airlines can offer greater physical evidence through their people, food, magazines, music, their awards for safety and hospitality, etc. Exhibit 24.2 shows a 21<sup>st</sup> century airline that is being designed to facilitate the modern corporate traveler who stresses on saving time.

**TRANSPORTATION INDUSTRY IN INDIA**

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Transportation in India is mainly dependant on roadways and railways. Only the corporate or rich people can afford to travel by air. The opening up of the airline industry has brought in a lot of competition to the domestic airlines. However, globalization has not affected the roadways, and railways in terms of market share. But the changes in the economic conditions have had an effect on their pricing in the way of the increase in prices of other products like fuel, etc.

### SECTION SUMMARY

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The transportation industry can be divided into roadways, railways, and airways. Road transportation in India is governed by individual states. The railways are the second major mode of transportation chosen by the people in India. They are governed by the Railway Ministry of the Government of India. Airways industry has both public sector and private players.

The characteristics of the transportation industry include the reach of different transportation modes, unstable demand, dependence on income levels of consumers and perishability of the services. Each of the three modes of transport has different balance of marketing mix elements.

Transportation in India is mainly dependant on roadways and railways. Only the corporate or rich people can afford to travel by air. The entry of private players into the airline industry has improved the quality of service delivered to the customer. The roadways have also been opened partially with some state governments allowing private operators to run their public transport vehicles. The rail system however continues to remain in the hands of the government.

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**Chapter 25**

**Marketing of Financial  
Services**

**(Banking, Insurance, Mutual Fund &  
Portfolio Management Services)**

# Banking Industry

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**In this section we will discuss:**

- Definition of Banking
  - Market Segmentation in Banking Industry
  - Marketing Mix of Banking
  - Recent Trends in Banking
- 

Banking is an industry that is built on trust. Customers deposit their money with a bank only if they trust the bank and the bank gives loans to its customers only when it trusts them. Banks do business with customers' money by accepting deposits from them and by giving loans on interest. For any bank to conduct business, initially it is the 'trust' that matters, not the capital it owns.

The concept of money and banking first evolved in Egypt and Greece centuries ago. In India the establishment of General Bank of India in 1786 marked the origin of the banking system in India. Before that there was no banking network and the people were at the mercy of money lenders. Banking emerged in the organized sector in the 19<sup>th</sup> century and developed significantly in the 20<sup>th</sup> century. In the post-liberalized era, reforms were introduced in the banking industry and this coupled with technological developments have given a new lease of life to banking in India.

With the ever-increasing financial needs of the people and the changing attitudes, the banking service today has become a necessity for all, from affluent people to the middle and lower income groups. Over the years, the market has expanded immensely for banks. Corporate lending has become an important area of business for many banks. New segments of customers like women, students and rural people have emerged as a new breed of customers. Apart from the traditional services of a bank like lending, depository services, payment of utility bills, bancassurance, and consultancy services have increased the width and breadth of the service mix.

With the advent of many non-banking financial institutions, banks today face aggressive competition in the market. However, there are also many opportunities for them to offer innovative services to customers and improve their business. Banks need to gear themselves up to survive and thrive in the new market.

## DEFINITION

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A bank is a financial institution that accepts deposits and channels the money into lending activities. Bank marketing refers to all the functions needed to cater to the financial and other closely related needs of the customer, keeping in mind the organizational objective of customer delight.

## MARKET SEGMENTATION FOR BANKING SERVICE

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Market segmentation for banking services can be done based on different criteria. The basis for any segmentation is market needs or the customer base. Earlier, market segmentation was also done on the basis of the geographical distribution and demographics of the customers. However, it was later realized that these criteria, especially that of geographic segmentation, were not suitable. Under demographics, customers can be segmented based on age, occupation, financial position etc. For example, for loaning, customers can be segmented based on age as children & youth (for educational needs), middle-aged (housing and other needs) and the aged (sustenance needs). However, with the changing profiles and needs of the customers,

## Services Marketing

it has become difficult to segment the market strictly based on demographics. For example, in today's world, a person in the age group of 25-30 can look for a housing loan and a middle-aged person can opt for retirement. The market for personal loans has also increased tremendously as today's consumer believes more in spending than in saving. As a result, the investment market has also dwindled.

As just seen, the basis for segmentation in banking services has changed. However, it is not a strict segmentation and can keep changing with the changing customer profile and his changing lifestyle and preferences.

In the banking industry, based on customer profiles, the market can be segmented into

- retail banking
- commercial banking
- corporate banking
- NRI banking
- investment banking.

Similarly, based on customer needs, the loans market can be divided into

- consumer finance
- trade finance
- corporate finance
- project finance
- venture capital

For other banking services, other segmentation criteria may be used. There has been a major shift in the segmentation strategy used by banks as they try to identify new markets and cater to their specific needs in today's competitive market. For example, some banks concentrate on individual customers while some concentrate on corporate

### Exhibit 25.1

#### ICICI Bank- a Symbol of Success in Banking Industry

ICICI Bank was promoted in 1994 by the erstwhile ICICI Limited, a Government of India financial institution. After considering various corporate structuring alternatives in the context of the emerging competitive scenario in the Indian banking industry, ICICI and ICICI Bank were merged to synergize their strengths. Bank of Madura, ICICI Personal Financial Services Limited and ICICI Capital Services Limited also merged with ICICI Bank. This has helped ICICI bank gain access to a large capital and customer base.

Today ICICI bank has different subsidiaries in general and life insurance, venture capital and security trading. These are ICICI Lombard, ICICI Prudential, ICICI Ventures and ICICI Securities.

ICICI bank has introduced many innovative and customer-friendly services like 'ATM on wheels', e-railway ticket reservation, 'Roaming Current Account targeted at corporate customers' etc. To enable the customers to access ATMs in each nook and corner of the country, it collaborated with State Bank of India and Andhra Bank. ICICI bank first introduced the country's mini credit card in association with Visa. ICICI Bank also offers investment in mutual funds through Multiple Channels of branches, ATMs and ICICI Direct.Com.

By segmenting the market into personal banking, corporate banking, NRI banking and internet banking, it has targeted all segments of the market. It caters to the needs of almost five million customers. By offering new and innovative products that meet customer expectations, in a period of just 10 years, it has become the largest bank in private sector and second largest in India.

*Source: [www.icici.com](http://www.icici.com)*

customers. While some cater to the needs of small investors, some try to delight their high net-worth customers. UTI Bank for example, offers 'Priority Banking' to customers with large investments. Some banks offer different services tailored to meet the varying expectations of customers. For example, ICICI Bank offers some services with customer-friendly features and relaxed conditions, targeted at students. By offering a varied choice of services and benefits to customers, ICICI Bank has become one of the leading banks in the marketplace (Refer to Exhibit 25.1)

## MARKETING MIX

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### Product

The products offered by a bank may be in the core or augmented form. The basic or core products are the basic service offerings provided by almost all the banks. For instance, a bank may provide savings bank accounts or housing loans to its customers. The augmented product includes all the specific features and benefits that help the marketers differentiate their offerings from those of competitors. They include the supplementary services provided by the bank to the customers.

A product mix refers to all the products offered for customers by a particular seller. The product mix of a large bank may include a large number of services, providing the customers all the financial services under one roof. New and innovative products are being offered to customers to meet their varying needs. Most of the following products are commonly offered by today's banks-

- savings account, debit card
- salary savings account
- current account
- fixed deposits
- recurring deposits
- loans like two wheeler, home, personal, home-equity loans
- overdrafts, cash credits, credit, virtual, charge, smart cards
- payment services of utility bills
- advisory and consultancy services
- depository services
- selling or cross-selling of products like bancassurance, prospectus of other institutions
- transfer of money through demand drafts, checks, challans
- public limited companies' public issue services

To meet customer expectations and satisfy their needs, these basic products need to be augmented with supplementary services. Some of these services are

- net, phone, mobile, ATM, mobile ATM banking, home banking
- 24-hour customer care service
- anytime and anywhere banking (where the customer is allowed to conduct transactions in any of the bank's branches )
- add-on debit and credit cards

In these days of intense competition in the banking sector, it is becoming increasingly difficult for marketers to differentiate their service offerings from those of their competitors. It is in this kind of situation that branding can help. For instance, ING

## Services Marketing

Vysya uses the lion as its logo and refers to the Indian rupee, when it says that the lion has always been behind the customer's money. The logo immediately reminds the customer of the service provider's name.

Whenever a new service is offered in the market, the consumer perceives the quality of the product by linking the service with the service provider. Likewise, branding persuades the customer to go in for first time buying by linking it to a service characteristic like reliability or high returns. Some banks co-brand their services by tying up with institutions or organizations of repute, to convey the message of quality service.

For example, Andhra Bank introduced Andhra Bank and ICFAI co-branded credit cards. This has led to the customers recognizing and associating the brand with increased quality, as both institutions are synonymous with customer orientation in their respective fields.

Marketers can develop new products by modifying the existing product, extending the product line, developing a new product or diversifying into a completely different product category. For instance, a bank may offer a 3-year CD (certificate of deposit) with the option of a rate change. This gives the customer the option to switch to a new rate if the rate of interest increases. This option is an enhancement feature and modifies the normal service offered. Introducing new and innovative products with customer focus to capture the market of every segment has become the strategy of every marketing savvy banker.

## Pricing

Pricing of any product or service affects its profitability because the price paid by the customers determines the demand for the offering and also the revenues and margins generated by it. Traditionally, the main source of revenue for any bank was the interest rate differential between the interest paid on investment and that charged on loans. However, the situation has changed in modern banking, as there are many more sources of income for banks today. The annual charges for credit and debit cards, penalties, commissions for cross selling and charges for payment of utility bills are some of the sources. Though pricing strategies like cost-based, competition-based and customer-based pricing are available, many banks base their pricing strategy on risk/return pay-offs. However, while initiating a price change, reactions from customers as well as competitors, have to be taken into consideration.

Due to the pressure of competition in the market, every bank should have a methodology for pricing credit. Pricing should take care of the cost of funds, the administrative expenses, the credit losses incurred and the expected profit. Banks should evolve a dynamic pricing strategy that changes with the changes in other elements of the product mix. Even though ratios like loan to deposit have changed, the margins do not indicate these changes. So, banks have to revisit their pricing strategy to make the best of the changing times.

## Place

The specific characteristics of services could pose a whole lot of problems for bankers. Earlier customers had to wait in queues for long hours to encash a cheque or make a deposit. On the other side, the bank employees would get tired answering customer queries and dealing with them. Since almost all banks were closed on Sundays and other public holidays, customers had to face problems if they had some emergency. The feature of perishability of services also caused inconvenience to both bankers and customers. When it was salary time in banks, most customers wanted to draw money and this led to a hectic rush in banks. However, things have been changing in the banking sector. Electronic channels of distribution have become quite



## Marketing of Financial Services

strong with technological innovations. Mobile banking, ATMs, net banking and 24-hour customer service have enabled the marketers to offer customers financial and non-financial transactions with greater efficiency and at lower cost. Customers are not crippled by factors like rush time and they enjoy greater flexibility and convenience in availing of banking services. These technological innovations have also reduced the element of heterogeneity in services, as more and more services have been mechanized. .

Place refers to making the services accessible and available to customers. The different channels for banking including both conventional and modern distribution channels are

- Physical channels of distribution or bank branches
- Telephones and call centers
- ATMs and ALMs (automatic lending machines)
- Internet banking and home banking
- Plastic cards (virtual, smart and mini credit and debit cards)
- Virtual branches and automated video banking (Where ATMs, phones can all be seen though not the staff)
- Mobile offices and mobile ATMs

Some banks have their ATMs and extension counters in the premises of external organizations. Even as most public sector banks have their branches in University campuses, new generation banks have been starting their ATMs in the premises of corporates like Infosys. To reduce operational costs, banks have come together to run ATMs that can be used by customers of any bank. SBI, for example, has a tie-up with its associate banks for ATM sharing. This has become possible through national networks of ATMs, operated by financial institutions or credit card associations. For example, Cirrus and Plus, the two largest networks in India, are managed by credit card associations.

## Promotion

The banking industry has been experiencing intense competition since the opening up of the economy and the entry of foreign banks into the Indian market. Indian banks have responded positively by upgrading their services and promoting themselves aggressively in the market. Banks use different promotional strategies like personal selling, advertising, discounts, melas etc. For example, banks like HDFC and ICICI have customer care executives who contact the customers either personally or on the phone and recommend their new services/products. The SBI held home loan melas and property fairs across the country as the lending rates plummeted and the market became very competitive. Banks also tie up with companies from other industries for the benefit of not just the two companies, but also the customer. For example, ICICI Bank has tied up with HPCL to offer a credit card to customers, who can avail of a 15 percent discount on PUC checks, 5 percent on MRF tyres and Exide batteries; 2.5 percent surcharge on fuel is also waived for them. This promotes the use of the ICICI bank credit card as well as HPCL's sales.

Banks also advertise their services through different media like the print and electronic media. They put up large hoardings especially in commercial areas, where they will be noticed by employees and businessmen. Banks also target specific segments through their advertising. For example, they advertise their educational loans at the beginning of the academic year, to attract students and their parents. Besides, banks indulge in social service activities, to promote their banking services and products. Exhibit 25.2 discusses a unique promotional strategy of SBI (State Bank of India).

### Exhibit 25.2

#### Innovative Promotion Strategy of SBI

The State Bank of India (SBI) — the country's biggest commercial bank — is encouraging sex workers to open savings bank accounts at its branches located in red light areas. This is a marketing exercise, which doubles as social service.

On 13 June 2004, at SBI's Jorashako branch in Kolkata, located in the heart of Sonagachi — Asia's largest and oldest red light area, housing over 30,000 registered sex workers — over 300 such workers were to open their savings accounts. Their names were recommended by the Durbar Mahila Samannay Committee (DMSC), an NGO working for AIDS prevention and protection of the rights for sex workers.

The branch manager of Jorashako branch Subrata Roy said that the concessions offered to the workers include relaxation in the proof of identity norm. This norm has been waived specifically for these 300 workers since they were recommended by the NGO, which already has an account with the branch. Financial relaxations include cheque book facility with a minimum deposit of Rs 250 instead of the usual Rs 500.

General secretary of the bank staff association, Ashok Dutta, took a special initiative in interacting with DMSC and getting these 300 accounts for the bank. "On the one hand, you can call it a social service. You can also say that this is an initiative by the SBI employees to mobilise deposits,"

*Source: Sumanta Ray Chaudhuri, "SBI Targets Sex Workers for Savings Accounts", The Financial Express, June 8, 2004*

## People

People have always been important for any services marketing. Though the role of people seems to have diminished in banking services because of the technology, their contribution cannot be ignored in practice. For instance, the banker sells personal loans to the customer by persuading him that the loan can be used for any personal purpose like marriage etc. The banker effectively explains repayment through EMIs (easy monthly installments), the effective cost of the loan and the rate of interest. As the banker enjoys direct interaction with the customers, he understands their tastes and preferences better. So he can offer tailor-made services to match the customer's expectations. For instance, if the customer wants more EMIs to repay a car loan than the actual EMIs set by the bank, the banker can amend his offer accordingly. Similarly, when a new service is introduced in the market, the banker can identify the target customer from among his existing customer base and communicate it with less expenditure and effort within a shorter time, as he knows their preferences by virtue of his association with them.

Banking is a highly intangible service and the market is extremely competitive. It is a high-involvement service as it pertains to the finances of an individual or a firm. These factors make the role of people extremely critical in marketing the service.

## Process

Process plays a significant role in winning customers and increasing market share. It is the processes in a bank that determine the efficiency of its operations and the quality of service delivery to customers. Every bank has a set of predetermined processes for each of its transactions. For instance, the time required by a customer to take a demand draft has come down from hours to minutes. Increased competition has forced banks to improve their work-processes and thus their efficiency. The various processes in a bank have been simplified, made more customer-friendly and faster. Information technology too has helped bankers in the process.

### Physical Evidence

Along with people and process, physical evidence is also very important for banks to make their service offering tangible. The following provide this physical evidence to the customers of a bank-

- ambience, buildings and lawns
- air-conditioned branch offices and ATMs
- furnished lounge for customers in queue
- amenities like newspapers, drinking water etc., for customers
- displayed awards and certifications like ISO 9001
- displayed achievements, financial results, business milestones
- displayed associations with reputed blue chip companies
- cheque books, communication letters, brochures etc. that are sent to customers

### RECENT TRENDS IN BANKING

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In the recent past, the banking sector has been further liberalized in favor of private and foreign banks. The cap on foreign investments in banks has been increased from 49% to 74%. However, banking reforms have led to the Indian banks becoming more competitive and agile in order to survive and thrive in today's market. For example, SBI, Bank of India, Punjab National Bank, Canara Bank, Bank of Baroda, Central Bank of India and Corporation Bank have significantly improved their ranking among Asian banks, taking advantage of the reforms and the retail boom, according to The Asian Banker (TAB) journal.<sup>1</sup>

Major technological innovations have also opened up new channels for marketers of banking services. At the same time, they also offer some new challenges to the marketers. For example, Internet banking also brings in the challenge of security. Banks have also found new competition from non-banking financial companies (NBFCs) and other financial institutions. As banks offer term loans, financial institutions are mobilizing deposits, which was earlier the business of banks alone. The banking industry has seen wide-ranging changes in the past decade.

- Branding banking services has become very important in view of increased the competition and little differentiation between services
- Banks have geared up to face the competition from NBFCs and other unconventional sources
- The banking industry is trying to make the best use of technology, while trying to avoid the pitfalls involved
- Banks have become more customer oriented and offer customized services to meet individual needs
- There is an increased focus on the high net-worth customers as they contribute more to the business
- Banks have been offering 24-hour service to customers all 365 days of the year through their customer care centers and anywhere, anytime banking services
- As the RBI has made it mandatory for foreign banks to have a capital of Rs.300 crore if they have to set up a subsidiary in India, the market is expected to see a spate of mergers and acquisitions

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<sup>1</sup> The Economic Times, November 14, 2003

## Services Marketing

- As more corporates turn to the equity market to raise funds, banks see more prospects in the retail, agriculture and infrastructure segments, apart from personal banking
- There have been some major changes in the Indian demographics as there have been changes in the lifestyle of customers with an increased willingness among them to take credit
- There has been a complete shift in the promotional strategies of companies as well, as banks tie up with companies from other sectors to leverage the synergies involved
- Banking reforms have changed and are expected to further change the working of many public sector banks in India as they gear up to compete with foreign and private banks, apart from NBFCs

## SECTION SUMMARY

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The bank is a financial institution which accepts deposits and lends that money to its customers. As banks deal with their customers' finances, banking is a high-involvement service. Therefore banks need to win the trust of their customers. Based on the customer profiles, banks segment their market into retail banking, corporate banking, personal banking etc. Depending on customer needs for finance, the market can also be segmented into trade finance, consumer finance, etc.

For the banker to derive maximum returns and enhance his market position the marketing mix has to be effectively managed. The products offered by a bank may be in the core or augmented form. The core products offered by a bank include a savings bank account or a housing loan. The augmented product includes services like internet banking, ATMs, 24-hour customer service etc. These augmented services help the banker differentiate his service offering from those of his competitors.

In the pricing of banking services, determining the interest rates plays an important role, as these rates in turn determine the revenues and profits of the bank. The multiple sources of revenue for today's banks include annual charges for core services and augmented services, penalties, commissions for cross selling and charges for payment of utility bills, apart from the differential interest rate. The basic pricing strategy in banks is based on risk-return pay-offs. However, the competitor and customer reaction have to be taken into consideration while initiating a price change.

The place element of the marketing mix refers to making the services available and accessible to customers. Improvements in the availability and accessibility of services have changed the process of banking. Technological innovations have given rise to modern channels like the Internet, which have helped banks increase business volumes and attract new customers. ATMs and credit and debit cards offer convenience to customers and have also improved the efficiency of banking operations. These changes have helped banks tackle the challenges of services marketing. The promotion or communication mix in banking refers to varied strategies like personal selling, advertising, discounts, and publicity etc. used by present day banks to promote their service offerings.

People also play an important role, even though their role has been eclipsed by technology in the recent past. Process determines the efficiency of banking operations and thus the service quality in a bank. Physical evidence includes the infrastructure and buildings not only in branch offices, but also the ATMs or other places of interaction. Even the quality of cheque books and mailers to customers forms physical evidence.

## **Marketing of Financial Services**

The banking industry has changed drastically over the past decade. The banking reforms and the opening of the economy to foreign and private banks have improved the working of the public sector banks. This has resulted in improved service to the customers of the banking industry. Increased competition and technology have enhanced the quality of service offered to the customers and also improved the returns for bankers.

# Insurance Industry

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**In this section we will discuss:**

- Market Segmentation in Insurance Industry
  - Marketing Mix for Insurance Industry
  - Recent Trends in Insurance Marketing
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A wide range of structural changes have transformed the insurance industry in India in the past few years. These changes have been mainly driven by three factors. Customer profile has changed and his expectations have increased; and the market has changed in terms of the entry of foreign and private players increasing competition; value added products from insurers and advancements in technology have also aided this transformation.

Insurance business, like most other financial services businesses, revolves around the 'trust' built by the marketer. So, most insurance companies in India try to win the customer's confidence and trust by advertising how well-established their businesses are and also their years of experience in the industry. With most private insurers entering into partnerships with international players, they try to leverage the international presence and experience of their partners as well. To gain the trust of customers, some insurers recruit such people, who have good relationships with target customers. For instance, employees of banks and other financial institutions, who have opted for VRS, are being recruited by insurance companies to market their services.

## MARKET SEGMENTATION IN INSURANCE INDUSTRY

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The secret behind a successful marketing strategy that creates a large, loyal customer base and increased revenues and profits is good market segmentation. As customers' needs and preferences are not homogeneous, there is an inherent need for marketers to segment the insurance market, identify the target segment and the customize the service for that segment. Alternatively, a player might choose to offer a homogenized service to suit the needs of the entire market. In India, the market for insurance can be broadly segmented into

- individuals
- institutions
- industry
- trade

Though this is the broad base for segmentation, different companies might choose different segmentation strategies. Most companies try to offer specialized services for each of these segments. However, some companies target a niche market. For example, there are specialized shipping insurance companies like Lloyds. However, it is important that the segment offers lucrative business. A service definition that is too narrow limits business opportunities for the firm and restricts revenue flow.

## MARKETING MIX FOR INSURANCE INDUSTRY

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### Product

There is no transfer of ownership in services marketing, as happens with the marketing of goods. The customer can only experience the service, he cannot own it. To give a sense of ownership, most insurance companies invite their customers to

participate in the process of designing the service, offering greater customization. The range of products being offered by various industry players can be seen in Exhibit 25.2.

### Exhibit 25.2

#### Product Mix in Insurance Industry

With the opening up of the insurance industry to private players, insurance majors from around the globe entered the Indian market by starting joint ventures with local companies. To beat the competition and to meet the ever-growing needs of customers, marketers began offering custom-designed services to each target segment. For instance, LIC of India offers an insurance product exclusively targeted at NRIs. For this, LIC uses the mail order channel.

The insurance industry is transforming itself from mere insurance into a one stop-shop for complete financial solutions. Insurance, investment and pension plans are available from most of the major insurers. Under individual insurances, endowment, money back, whole life and term assurance type plans are popular for major insurers like LIC and HDFC Standard. Saturation of markets in many developed economies has made the Indian market attractive to global insurance majors and they have been introducing innovative products targeted at each segment.

There has been a plethora of new and innovative products offered by the new players, mainly from the stable of their international partners. Customers have tremendous choice from a large variety of products from pure term (risk) insurance to unit-linked investment products. More customers are being offered products and services designed to meet their true needs and not just traditional money-back policies, which are not considered very appropriate for long-term protection and savings.

The insurance needs of a young couple with small children will be quite different from that of a family in which the income-earner is close to retirement. An example would be of life insurance companies like HDFC Standard and SBI Life that focus only on High Net-worth Individuals (HNIs). Health-related insurance schemes, which cater to the needs of individuals to protect themselves from the uncertainties of ill health/accident at home or abroad and accident-related products, which include various policies that cover personal accident and other specific contingencies are being offered under agreements with super specialty hospitals.

In the post-liberalization period, old as well as new insurers are offering innovative products to the consumers namely pure insurance products (term insurance, pure investment products, pension plans) and investment-cum-insurance products (endowment money back, whole life and unit-linked insurance plans). General insurers are launching healthcare, property insurance, accident insurance and other products related to the personal line of insurance. For retirement insurance, the category spreads from a product that allows lump sum money parking for security to a plan-giving annuity.

Non-life insurance companies offer a plethora of personal insurance products such as home insurance, health insurance, personal accident cover, and shopkeeper's policy. Cash-in-transit cover and the fidelity guarantee insurance are provided by the general insurance companies, both public sector and private sector with a view to safeguarding the interests of the employer /organization against any loss of money by way of theft, robbery or embezzlement by the employees. Different policies like Individual policy, Collective policy, Floater policy, House insurance policy, Terrorism policy, E-Risk Insurance, Commercial Insurance (a tool to minimize project risk), Residual Value Insurance, Baggage insurance, Travel insurance, Insurance against earthquake etc., are being offered to individuals.

Policies like Contractors All Risks (CAR) Policy, Machinery Breakdown Policy, Boiler & Pressure Plants Policy, Machinery Loss of Profits (MLOP) policy, Deterioration of Stock Policy, Electronic Equipment Policy are being offered targeted at industry. Insurers are leaving no segment untouched. To compete in the industry and raise volumes, in today's markets, which are more fragmented than ever before, offering unique and innovative products has become imperative, not optional.

Source: <http://www.etstrategicmarketing.com/Smjan-feb04/art1.html>

## Services Marketing

Before the liberalization of the insurance sector, there were only government players like LIC and GIC, which had only a few policies targeted at lucrative segments of the market. There were very few specialized or customized insurance policies to meet customer needs. However, with the opening up of the insurance sector to private and foreign players, more specialized services have become available in the market to meet the specific needs of customers. Some of them are mentioned below.

- Life insurance
- Accident insurance
- Health insurance
- House insurance
- Liability insurance
- Travel insurance
- Commercial insurance
- Property insurance
- Automobile insurance
- Baggage insurance
- Cattle & Livestock insurance
- Engineering insurance
- Marine-cargo insurance

The basic marketing strategy of marketers in a competitive market has been to identify the special needs of customers and target them. For example, the Naada Lahiri policy of United India Insurance targeted exclusively at performing artistes (instrumental or dance), insures the artiste against accident or disease. In the individual segment, most customers see insurance as a means of security, investment or tax saving. If separate policies are offered to customers to meet their different needs, it may not be very difficult to increase volumes. For instance, a specially designed auto-accident insurance policy could be targeted at drivers and mechanical workers who are exposed to accidents.

In a marked departure from the earlier scenario when most insurance players were regarded as the same, today's insurance companies give due importance to brand building. As the market has become highly competitive and the products have very little to differentiate one from another, companies have resorted to brand building. Global insurance majors like Allianz, AIG, MetLife and ING have put a lot of effort into this exercise. Not to be left behind, traditional Indian players like LIC and GIC have also used brand building to give the foreign players a tough fight.

## Price

Price plays a dominant role in marketing insurance products. Policy price, known as premium, has a good impact on the number of policies sold and the total net revenues generated. As price is taken into consideration by most potential customers, the offering has to be competitively priced. Pricing of life insurance is generally done based on the competition, prevailing rate of interest, etc. However, it is the quantum of risk involved that ultimately decides the pricing of insurance products. Higher the risk involved for the marketer, the higher the price.

It is difficult to determine the fixed and variable costs associated with per unit of production of service. This is more so when various services (instead of a single service) are offered. Therefore, pricing a product based on the cost of production and delivery becomes difficult. As a result, most insurance products are priced based on



competitor strategy and the risk involved. In addition, pricing can also be done taking advantage of the demand fluctuations in the market. For example, the price of marine-cargo insurance can be lowered to increase demand during times of very little trade.

While pricing insurance, it is also important to take the customer into consideration. The way cost and benefits are perceived by customers also helps determine the price of an insurance product. Like in any other service marketing, the perceived benefits can be increased by the offering of supplementary services. These services include personalized customer care, complete information on premium calculations and policy types and timely reminders for premium payment etc. In addition, by lowering the customer's perception of risk and costs, the insurer can charge a higher price.

### Place

Place in terms of the channels for distribution is very important in marketing insurance products. The fact that the volume of business generated depends on the company's reach is the reason why place is so important. An insurance company needs to offer a personalized service to customers to lower their perceived risk and for that, it needs the services of a large number of able agents. LIC is one of the best examples of a successful network resulting in good business. Even after the deregulation of the insurance sector in the late 90s, LIC continues to be the market leader in life insurance in terms of market share and the number of policies sold. Its vast network of 2,048 branches, 1 lakh employees and 8.5 lakh agents certainly contributes to its success.

The core product of insurance companies is best sold through personal selling, with customized offerings. The other distribution channels like the internet, advertising, telemarketing etc. can be used to provide supplementary services to customers. For example, a marketer can call up and take an appointment, but he needs to personally meet the customer to understand his specific needs and suggest a suitable insurance policy. Similarly, the Internet and call center service can be used to provide information to the customer as and when he requires it. However, the traditional distribution channels of branch employees and agents alone can help sell the product to the customers.

Nevertheless, some innovative changes have been taking place in the distribution of insurance services. Bancassurance, that is, distribution of insurance products through a bank's distribution channels is the most popular channel. For example, Tata AIG has a tie-up with HSBC while Bajaj Allianz has tied up with Syndicate Bank for bancassurance. For banks, bancassurance is a means of product diversification and a source of additional fee income, whereas it helps insurance companies increase their market penetration and revenues. The customer also benefits because of a reduced price and an assured high quality product.

Some insurance companies have tied up with NGOs and co-operatives to promote their products while some have tied up with employers. Work-site marketing promotion involves an understanding between the insurance company and the employer, wherein the employees are insured with the company. Most insurance companies use a combination of distribution channels and do not rely on any one single channel to generate more sales. The reason behind this is simple- expanding the reach with little investment. For instance, though SBI Life, the insurance arm of SBI sells its life insurance policies through its bank branches, its own SBI Life branches and agents, it has also tied up with various regional rural banks.

### Promotion

There has been an increased emphasis on promotion in the insurance business in the recent times. The basic reason for this is that the supply of insurance service far exceeds the demand from the market and marketers need to employ a 'push' strategy.

## Services Marketing

The importance of personal selling as a promotional strategy has been discussed in the earlier section. Let us now look at the other forms of promotion. Advertising in insurance services stresses the need for insurance and its benefits. Individualized advertising on the benefits offered by specific companies is not very common as there is very little to differentiate the services of one company from those of others.

Under sales promotion of insurance products, the widely used techniques are reduced premiums, discounts, gift coupons, sign-up rebates, future price discounts and special service enhancements. Maintaining good public relations is also an important promotion strategy, especially because the insurance business is a 'do-good' business for the customers. Tie-ups with banks and credit card companies and also with automobile companies are some of the ways of promoting the service. For example, Maruti has tied up with Bajaj Allianz and National Insurance Corporation to provide an insurance service to its customers. Some of the distribution strategies can also be discussed under promotion strategies as they help in promoting the product.

### Process

The process of buying an insurance product and paying the regular premium has become a simple process in the recent times. Insurance companies offer convenience and savings on cost and time to customers, to attract them. For example, considering the low literacy and awareness levels in rural India, SBI has tied up with regional rural banks (RRBs). SBI Life sends a group policy to the RRBs, which issue individual policies to their enrolled customers. The process is further simplified as customers sign a health declaration and pay a uniform premium for all ages. By using this strategy, SBI Life has ventured into the hitherto untapped rural market.

Technological changes have also helped simplifying the process in the insurance sector. The customer can now gather more information on the Internet, which helps him choose his service provider and the service that will cater best to his needs. The customer can even purchase a policy on-line, if he so desires. Insurance policies can be purchased through the Net also.

Processes have to be customer-friendly and time saving. One of LIC's steps in this direction is to accept deaths certified by its insurance agents in the absence of other records with beneficiaries. In this way, the agents can accelerate the settlement of an insurance claim.

### People

Insurance needs to be sold; very few customers would buy it in the absence of 'selling'. Therefore, the importance of 'people' increases even in the post-liberalized insurance industry. Marketing in the insurance industry is, therefore, dominated by agents and insurance advisors. The agent's ability to convince and persuade is the determining factor in an insurance deal. Therefore, agents need to be empowered to offer customized services to suit the specific needs of customers. They need to be motivated through commissions and awards to achieve higher targets.

Insurance companies have realized the importance of their agents in running and expanding their business. They have realized that it is important to hire agents who can win the trust and confidence of customers. Therefore, they have started recruiting retired employees from banks, who already have a known customer base and who can win the confidence of prospective customers. They have even started appointing housewives as agents. The investment is almost zero, as the agents need to be paid nothing as a fixed salary. They earn only commissions, as a percentage of the insurance deal. Therefore, insurance companies can earn more revenues with the minimum investment.

### Physical Evidence

In insurance marketing, providing physical evidence to the customers is quite difficult. In most cases, the customer might not ever visit the premises of the company as he buys the policy through the agent at his residence or office. Therefore, the office building, infrastructure, equipment etc. contribute very little to physical evidence. However, a good ambiance, well dressed and well behaved employees, displayed certificates and achievements of the company, etc., are some of the techniques used by insurance companies to provide physical evidence. The policy certificate and the receipts of payment contribute to minimizing the perceived risk of customers. Therefore, they can be included as elements of physical evidence. The logo and brand name of the company displayed in advertisements and articles/press releases in newspapers provide physical evidence.

### RECENT TRENDS IN INSURANCE MARKETING

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To initiate reforms in the insurance industry in India, the Government of India set up a Committee on Reforms (the Malhotra Committee) in April 1993. The committee recommended the entry of private and foreign players into the industry, which had been ruled by government insurance companies until then. The opening up of the industry ushered in competition and offered better choice to the consumer. The other advantage was the increased reach of the insurance industry to different sections and parts of the country.

The passage of the Insurance Regulatory and Development Authority (IRDA)<sup>2</sup> Bill in 1999 initiated the reforms process. Twelve life insurance companies and nine general insurance companies were registered as private players in the insurance sector by 2004. With the entry of global players, competition has intensified in the Indian insurance sector resulting in aggressive marketing by all involved.

One of the noticeable characteristics of the new Indian insurance industry is the number of joint ventures and strategic alliances. Global brands like AIG, Allianz, Prudential, Sun Life Canada and ING have formed joint ventures with Indian companies to form Tata AIG, Bajaj Allianz, ICICI Prudential, Birla Sun Life and ING Vysya. The entry of new companies has paved the way for price wars and innovative methods of distribution to attract customers and increase revenues.

Some of the changes in the Indian insurance industry over the past half-decade are discussed below.

- There is an increased awareness of insurance among consumers and so their expectations have gone up.
- The service portfolio of many insurance companies has expanded with the addition of innovative services.
- The market size of the insurance industry has increased as more customers are targeted with specialized products to suit their needs.
- Technological developments and international standards have improved the service quality.
- Innovative distribution channels like bancassurance, work site marketing etc. Have helped the market expand.
- New promotional strategies and simplified processes have also improved the business for many insurance marketers.
- Industry players are focused on serving niche markets through their specialized services.

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<sup>2</sup> IRDA was set up as an independent regulatory authority to regulate all matters related to the insurance business in India

### SECTION SUMMARY

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The insurance business is based on customers' trust and confidence as it deals with the finances of the customer. The basis for a well-planned and well-executed marketing strategy is effective market segmentation. Insurance is broadly segmented into individuals, institutions, industry, and trade customers. Most industry players offer specialized services to cater to the needs of these segments. Some marketers target niche markets and offer customized services.

The scope of insurance has increased with more private and foreign players entering the market. They have introduced many innovative services targeted at different segments. Price plays an important role in marketing of insurance as it determines the premium to be paid by the customer. Pricing of insurance products is influenced by competitor strategy and the prevailing interest rate, but is basically determined by the risk involved. The higher the risk involved for the marketer, the higher the price.

As insurance needs to be 'pushed' in the market, the importance of interaction between the service deliverer and the customer increases. Therefore, agents, brokers and employees of the company become important channels of distribution for the service. Though unconventional channels like bancassurance, the Internet and tie-ups with automobile marketers have emerged, the role of agents cannot be discounted. Insurance companies have simplified their processes of service design and delivery to offer greater convenience to customers and reduce their perceived costs. Physical evidence can be provided to insurance customers in the form of policy certificate and premium payment receipts. The office building, the ambience, the service personnel etc. of the insurance company and their logo and brand name in advertisements also add to the physical evidence.

Private and foreign players entered the Indian insurance market in 1999 after the reforms were initiated. Their entry ushered in new competition and improved the service quality offered to the customer. With awareness increasing, customer expectations also increased. New distribution channels and innovative promotional strategies also evolved because of the increased competition. All these led to the development of the insurance industry and expanded the market in India.

# Mutual Fund Industry

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**In this section we will discuss:**

- Definition of Mutual Fund
  - Market Segmentation
  - Marketing Mix of Mutual Fund Industry
  - Recent Trends in Mutual Fund Industry
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The Indian mutual fund industry originated in 1964 with the formation of the Unit Trust of India, at the initiative of the Government of India and the RBI (Reserve Bank of India). Public sector banks and financial institutions entered the market in 1987 as SBI Mutual Fund, Canbank Mutual Fund, LIC Mutual Fund, etc. Private players were allowed to enter the market in 1993, governed by the SEBI (Mutual Fund) Regulations. The industry today is governed by the modified regulations of 1996.

Investment in the capital markets involves an element of risk. The higher the returns, the greater the risk, and vice versa. Investment in the equity markets is, therefore, associated with high returns and high risk. On the other hand, investment in the debt market ensures greater safety, but offers low returns. So, investors try to find a balance between the two. However, they might not have enough time or knowledge to understand the market dynamics and invest wisely. Therefore, they need the help of professional fund managers to take care of their finances, invest them wisely and reap good returns. This is where the mutual fund industry enters the picture.

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## DEFINITION

A mutual fund pools savings from investors (who buy units of the mutual fund) and invests them in diversified securities in the capital market in order to balance returns and safety for the investor and optimize benefits. In other words, mutual fund is a trust that manages its investors' money using a team of professional fund managers. The mutual fund gives the common man an opportunity to invest in a professionally managed, diversified fund that offers optimized returns for a small fee.

Investors put their money in mutual funds, which, in turn, invest the money in bonds, debentures, shares and money market instruments. Mutual funds can be divided based on their structure or investment objective. Based on their structure, they can be divided into open-ended, closed-ended and interval schemes. In the case of open-ended schemes, investors can invest anytime or sell anytime as there are no specified time limits. They are always open for subscription or redemption. In the case of closed-ended schemes, investors can purchase units only at the time of initial offering. Subsequently, the schemes can be sold or bought in the stock market. Closed-ended funds also have a fixed maturity period, after which they can be redeemed from the issuer of the fund. Interval funds combine the features of both these funds. They can be purchased or redeemed during pre-determined intervals.

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## MARKET SEGMENTATION

The mutual fund market can be segmented based on the investment objective of the investor. Say for example, one investor wants his investment to provide him with regular fixed returns and another wants his investment to grow and provide high returns in the medium to long term. The investment objectives of these two investors

### Exhibit 25.3

#### Marketing Strategies in Mutual Fund Industry

With the growing prosperity and disposable income among the middle class in India, there is a need for innovative schemes, which offer personalized investment management services to mutual fund investors. For instance, UTI Mutual Fund has launched a portfolio management scheme called Axel for high net worth individuals.

Today, mutual fund companies design and launch specialized products and services. Pru-ICICI Mutual Fund and UTI Mutual Fund have launched products that are designed to serve the specific need of education for children. Some mutual fund companies are launching a new product called 'Fund of Funds' which is a scheme that merely invests in a combination of other mutual fund schemes (growth schemes, income schemes etc.), based on the investment objective and risk profile of the investor. Prudential ICICI Gilt Fund is an open-ended gilt scheme and the objective of the scheme is to generate income through investment in government securities. Kotak Mahindra Mutual Fund has innovative schemes like K-Gilt which invests solely in government securities thereby ensuring risk-free return for investors.

Foreign banks have tied up with asset management companies to offer their expertise in investment solutions to customers. For example, Deutsche Bank offers investment tips to its clients from Prudential ICICI Mutual and Standard Chartered Bank offers customised portfolio management services to Templeton investors. Several domestic funds which have in-house broking arms have beefed up their operations to offer their investment expertise to their customers.

E-commerce is being adapted rapidly to increase volumes through electronic sale of financial products. Mutual Funds like PRU ICICI, Birla Sun Life Asset Management, Zurich, SBI Mutual Funds and UTI Mutual Funds are all examples of companies that are experiencing the power of the Internet and its reach. UTI has merged with IL& FS Mutual Fund to have access to a larger customer base and to increase volumes. UTI Mutual Fund has also entered into an exclusive tie-up with State Street Global Advisors. This tie-up will enable UTI to provide more choices to its clients; especially those who wish to invest outside the country.

On the distribution front, mutual funds are exploiting all the distribution channels like banks, agents, broker, the Internet, work site marketing and call centers. Even the government owned post offices are not left out. These post offices, which are evenly distributed throughout almost all the districts of the country, distribute Prudential ICICI and SBI Mutual Funds, and IDBI-Principal MF.

*Source: [www.uti.com](http://www.uti.com) and [www.estrategicmarketing.com](http://www.estrategicmarketing.com)*

are different and therefore the same fund cannot cater to the needs of both. Since customer needs are different, the market can be segmented into the following funds based on these differences.

- **Growth funds:** Growth funds provide capital appreciation over the medium to long term. These funds invest in equities, which generally offer high returns over a period of time. Therefore, they are ideal for investors looking for high returns on capital over the long term.
- **Income funds:** Income funds provide regular income to investors. Such funds generally invest in fixed income securities such as bonds, corporate debentures and Government securities. They are ideal for investors who desire the minimum risk and a regular income on their investment.
- **Balanced funds:** Balanced funds, as the name suggests, strike a balance between growth and regular income. These funds invest in a combination of equities and fixed income securities, in a pre-determined proportion. They are ideal for investors who want both capital appreciation and a steady income.

- **Money market funds:** Money market funds invest in instruments like treasury bills, certificates of deposit, commercial paper and inter-bank call money. These are safer short-term investment options. They are ideal for investors looking for preserving capital along with income returns. The returns fluctuate with change in interest rates, which might happen in the short-term.
- **Tax saving schemes:** These funds are for those investors looking for tax-saving benefits. Equity lined savings schemes (ELSS) ensure tax saving to eligible investors under Sec. 88 of the Income Tax Act.
- **Other schemes:** There are some special funds designed, which invest in only specific industries like IT or pharma. A slight variation is the sectoral fund, which invests in a specific industry or a group of industries. For example, Reliance launched a power sector mutual fund in early 2004, to take advantage of the growth opportunities in the power sector. There are also index based schemes, which try to replicate the performance of a sensex like the BSE or the NSE. However, the performance of such funds strictly fluctuates with changes in the sensex, increasing the risk, and of course, the returns too.

Marketers design their strategies after identifying the market segment they would like to target. Based on their strategy, they determine the marketing mix elements and adapt them to suit the market needs. They might have to change their pricing strategy, promotion strategy or the place strategy to reap the maximum returns from the market. Exhibit 25.3 talks of the marketing strategies adopted by different players in the Indian mutual fund market.

## MARKETING MIX OF MUTUAL FUND INDUSTRY

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### Product

Customers invest in mutual funds with capital appreciation, liquidity and safety as their objectives. So, marketers need to design the products keeping these objectives in mind. In addition, the marketer has to take care of the government regulations that govern the industry. As a result, he needs to be very judicious in designing the product and planning the investment portfolio of the customer. Only then can he maximize the returns while minimizing the risk.

Mutual funds operate in a very volatile environment as the capital market is subject to wide swings. As a result of the dependence of mutual funds on the stock market, any change in the prices of securities and debentures has an immediate impact on the returns of the fund. Mutual fund schemes are designed to offer the benefits of high returns, low costs, liquidity, transparency, flexibility and other specific benefits like tax exemption to the investors.

### Price

Before we try to understand the pricing of mutual funds, let us first understand the concept of NAV (Net Asset Value). The NAV of a scheme is the value of net assets of the scheme divided by the number of outstanding units on the valuation date. It is calculated as

$$\frac{\{(\text{Market value of all securities held by the fund} + \text{cash} + \text{accrued income}) - \text{Liabilities}\}}{\text{No. of units}}$$

The price per unit of a mutual fund includes the charge levied by the company, which is called the load. The charge levied when an investor purchases a unit is called the entry load and the charge levied when he redeems it is called the exit load. Therefore, the purchase price or sales price of a mutual fund is the NAV of the fund plus the

## **Services Marketing**

entry load. For example, if the per unit price is Rs.10 and the load is 2 percent, then the purchase price becomes Rs.10.20. On the other hand, if the exit load is 2 percent, then the redemption price becomes Rs.9.80.

The price of a mutual fund depends on the performance of the stocks held by the fund, the stock market trends and also the reputation of the mutual fund company. Therefore, marketers have very little flexibility in pricing their funds. However, if the company has consistently delivered good returns to customers, it can afford to charge a little higher load.

## **Place**

The various distribution channels employed by mutual fund companies include their own employees, agents, third party distribution companies, banks and post offices. The third party distribution companies started flourishing with the entry of private players into the industry in 1993. UTI and the government players relied completely on their agents for distributing the funds. Some companies like the Birla Sun Life started their own exclusive distribution companies, without relying on third parties.

Banks offer the funds with a slight mark-up on their fixed deposit rates. Both banks and mutual funds benefit by this type of arrangement. Many mutual fund companies have tied up with banks to sell their funds through the banks' distribution channels. For example, HDFC Mutual Fund and Reliance Mutual Fund have tied up with Union Bank of India, while LIC Mutual Fund has tied up with the Bank of Rajasthan.

Post offices across the length and breadth of the country have become easy distribution centers for companies to distribute their mutual funds. IDBI-Principal Mutual Fund, which started using the post offices in 2001, was the first to use this route. Today, the mutual funds of Prudential ICICI and SBI are also sold using the vast network of post offices across the country. The internet of course, has grown to become one of the best distribution channels for mutual fund companies.

## **Promotion**

With more and more private and global players entering the mutual fund market, the market has become quite competitive in the recent past. Mutual funds, as an investment option, are now competing with commercial banks and other financial institutions for the investor's savings. Mutual fund companies need to differentiate themselves from the other investment avenues in the market and position their services exclusively in the customer's mind. To do this and to increase their individual market share within the industry, they need to adopt innovative promotional strategies. Apart from the traditional promotional strategies like personal selling and advertising, market players are adopting new methods like strategic tie-ups.

UTI Mutual Fund has tied up with the world's top institutional asset manager, State Street Global Advisors. The institutional asset manager would offer advice to UTI on its international investments. This is expected to result in better investment decisions by UTI and, thus, better returns to its investors.

## **Process**

The process of investment by one mutual fund company can be quite different from that of another. In some companies, the fund manager is given a free hand and he decides where to invest and how much to invest. On the other hand, the investment decision in some companies is strictly governed by the company itself. Any fund manager can operate within the defined parameters of the company. This difference in investment processes defines the style of functioning of a fund and determines its success.



A simplified process results in better service quality. As simple process of design and delivery reduces costs not only for the company, but also for the customer. For example, when the customer has the option of buying mutual funds online, he would prefer to do so to save time and effort. In addition, he may even be spared the commission that he might have to pay the third party distribution company. He could view his unit holdings and their performance online to assess the returns and take decisions accordingly. The customer can also switch his investments from one scheme to another (for example, balanced to growth) within the same fund for a fee or without it. An open-ended scheme offers greater convenience to the customer as he can buy and redeem his units any time. He is not bound by any time frame. This makes the process of entering and exiting the scheme simple.

### People and Physical Evidence

The process of investment decision-making in a mutual fund company determines the importance of the individuals in the company. As discussed in the earlier example, if the fund manager has a free hand to decide the fate of the savings of thousands of unit holders, he needs to be very competent and judicious in his decision-making. In such companies, people become the most important element of the marketing mix. In fact, companies publicize the success of their fund managers who have delivered consistent results, to promote their services.

A mutual fund is a relatively new investment option compared to other investment avenues like bank deposits and bonds. Therefore, the knowledge of this option is limited not only among the customers, but even among the intermediaries like the agents and third party distribution companies. So, mutual fund companies invest in training not only their own employees but also those of the distribution companies and the agents. It is quite common for mutual funds like Reliance and SBI to conduct seminars and workshops to give the required impetus to the distributors.

Providing physical evidence to the customer is one of the most difficult aspects of the mutual fund business. As there are very few instances of the customer entering the company premises, buildings and infrastructure can rarely be used as physical evidence. Therefore, companies use their channels of distribution like banks and post offices to attach an element of credibility to their services. They also try to use their service personnel to reduce the perceived risk of customers. One of the most important ways is to promote the earlier successes of the company in a big way.

### RECENT TRENDS IN MUTUAL FUND INDUSTRY

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The financial services sector as a whole has been transformed since the initiation of reforms in the country. One of the biggest impacts has been on the mutual fund industry, which was almost non-existent before the reforms were introduced. There was no player in the country, UTI and even with the entry of the government players like LIC in 1987, the market potential seemed limited. However, with the entry of private and global players with effect from 1993, the market became completely transformed. The quality of service rendered and the variety of options offered to the customer improved immensely.

The various changes in the market have led to a paradigm shift. Some of these changes are discussed below.

- The focus has shifted to the customer and products are designed to meet customer needs and preferences.
- The investor is given the option to assess the risk and returns involved, and then take the investment decision. There is increased transparency.

## Services Marketing

- New schemes are being designed keeping in mind the risk profile of the investor and his investment objective. There are special schemes that cater to the needs of pensioners, young parents, salaried employees etc.
- Professional management of their savings offers investors greater convenience and confidence. More investors are willing to invest in the mutual fund market.
- The lowering of interest rates in the money market has led to investors gravitating towards mutual funds rather than investing in traditional options like bank deposits and bonds.
- The growth and development of the equity market in India has improved the returns on mutual funds, inducing more customers to invest in them.
- Technological development in the form of the internet has simplified the process of selling and redeeming mutual funds. The Internet also helps in tracking their performance.
- The latest option of mutual funds, that of investing in foreign equities, is expected to transform the mutual fund industry further.

## SECTION SUMMARY

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A mutual fund pools the savings from numerous investors and invests them in diversified securities in the capital market in order to optimize the returns, safety and liquidity and offer the maximum benefits to investors.

Mutual funds can be divided into open-ended, closed-ended and interval schemes, based on their structure. The mutual funds market can be segmented into growth fund, income fund, balanced fund and money-market fund, based on the customer's investment objective.

In purchasing mutual funds, investors look for capital appreciation, liquidity and safety. Therefore, marketers are required to design the products keeping those objectives in mind. Products that are customized and designed to suit the risk profile of the customer and his investment objective are offered in the market. The price of a fund chiefly depends on the underlying stocks' performances and the stock market trends. The company's performance allows it to charge a load on the purchase and redemption prices. The various channels of distribution used by mutual fund companies include their own employees, distribution companies, agents, banks and post offices apart from the Internet. The role of people becomes quite important in the mutual fund industry for two reasons. The fund manager determines the success of a fund in the market. As there is limited knowledge of mutual funds among investors, they need to be convinced by the employees and agents to invest in mutual funds.

The mutual fund industry has evolved as a competitive industry in the financial services sector with the introduction of reforms. The entry of global and private players and the inventions of technology like the Internet have transformed the business completely. The development of the equity market has made the mutual fund an attractive investment option for consumers. The option to invest in foreign equities is expected to change the mutual fund market in India further.

# Portfolio Management

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**In this section we will discuss:**

- Definition of Portfolio Management
  - Market Segmentation and Marketing Mix
  - Recent Trends in Portfolio Management Industry
- 

The growth of the equity and debt markets in India has opened more avenues for investment to the average Indian investor. According to a Merrill Lynch report, Indian income levels are rising at a much faster rate than those of the rest of the world. As a result, the demand for investment options is also on the rise. However, the investor needs to have a thorough knowledge of the different markets and their changing trends. He also needs the expertise to choose the right options to suit his needs and spread out his risk. It would be difficult for an average investor to have both and also the time to invest and track the performance of his investment. At the same time, a standard product or portfolio of investment options might not suit the individual needs of all investors. This situation has given rise to the sector of portfolio management services (PMS) and its rapid development in the recent times. Many top mutual fund houses like Templeton, StanChart and HDFC have obtained licenses from SEBI to operate in the PMS market.

Portfolio managers design a customized portfolio of investment options to cater to the needs of individual customers. They then invest the customer's savings across the portfolio and manage the funds. They track the performance of different sectors like the equity market, bonds, real estate etc., and make the necessary changes in the portfolio from time to time, to maximize returns. They charge a fee for their services. However, customers do not seem to mind that as they benefit from the professional services of the portfolio manager and the flexibility involved in designing an individualized portfolio for the maximum returns at minimum risk.

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## DEFINITION OF PORTFOLIO MANAGEMENT

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Portfolio management service refers to managing the funds of individuals or institutional customers, taking into consideration their short-term and long term needs. This involves maximizing the returns for the customers while mitigating the risk. Portfolio management needs the professional expertise of the portfolio managers, who technically analyze each investment option and choose the ones that best suit the customer needs. It also involves distributing the available funds among the investment options for the best results.

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## MARKET SEGMENTATION AND MARKETING MIX

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Portfolio management services are used by high net-worth individuals (HNIs) and corporates. However, the market is evolving and the service is being extended to individual investors with an investment sum of even Rs.5 lakh. Investsmart for example, offers its services to individuals with a portfolio of Rs.5 lakh while most foreign banks require a minimum portfolio of Rs.25 lakh. Therefore, based on the customer profile, the market can be segmented into three categories, average individual investor, high net worth individual and corporate investor. Marketers can

## Services Marketing

target a specific segment and cater to its needs rather than try to serve the whole market. This is because the needs of each of these segments are very different from those of others.

Based on the services offered and the requirements of the customer, the market can be divided into discretionary services and non-discretionary services. While discretionary portfolio management allows the portfolio manager to take independent investment decisions within the broad framework of asset allocation, non-discretionary portfolio management requires that every decision taken by the manager be vetted by the investor.

## Product

As discussed under segmentation, portfolio managers would do better to identify their target segments to serve them better. For example, say a portfolio manager gains expertise in advising and managing the portfolio of institutional investors. He understands their requirements and their risk-taking abilities better. However, when he needs to advise an individual investor with a portfolio of Rs.10 lakh, he might not be able to do a good job. Therefore, the product needs to be designed based on the unique requirements of each investor. Each product should take into consideration the following aspects

- fitment with investment needs
- adherence to pre-determined goals
- conformity to market guidelines and constraints
- ensuring of investment returns

Different players cater to different segments. For instance, The Portfolio Management Services Section (PMS) of the State Bank of India was set up to handle the investment and regulatory related concerns of institutional investors functioning in the area of social security. PMS manages the concerns of large investors and has the knowledge and expertise to manage large portfolios.

## Price

Pricing is very important in the PMS sector as high fees can turn away potential customers who would then be lured by mutual fund schemes. Therefore, pricing services competitively is almost a necessity for the survival of the PMS companies. However, reputed companies with strategic tie-ups with international banks can afford to charge a premium price.

Pricing methods and the prices of these services vary from service provider to service provider. However, some of the most commonly used methods are percentage of value of portfolio assets or a percentage of returns. For example, following are the fee components of Motilal Oswal,<sup>3</sup> which offers its services to investors with a portfolio of over Rs.50 lakh.

- Management fees: Base minimum fees charged based on weighted average closing NAV for the quarter
- Custody fees: Custody fees will be 0.25% P.A (payable quarterly) of assets under management, subject to a maximum of Rs.50, 000 P.A, payable quarterly
- Performance based management fees: Performance based management fees will be charged based on performance in terms of positive returns on portfolio. The fee increases proportionately with the percentage increase in profits

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<sup>3</sup> [http://www.motilaloswal.com/PMS/pms\\_Product.asp](http://www.motilaloswal.com/PMS/pms_Product.asp), Accessed on June 12, 2004

### People

Once customers specify their requirements, they leave investment decisions to the portfolio managers in the case of discretionary PMS. Discretionary portfolio management allows the portfolio manager to take investment decisions on behalf of his clients within the broad parameters of asset allocation. This emphasizes the importance of people. Even in the case of non-discretionary PMS, portfolio managers give suggestions to their clients to enable them to take judicious decisions. Therefore, the role of people is very significant in the case of portfolio management services. Portfolio managers are the most important assets of a PMS company. In fact these companies draw attention to their expert managers in their advertisements and promotional campaigns.

### Place

One of the major contributors to the growth of PMS in India has been the lack of time or expertise of the individual and institutional investors. The Internet as a distribution channel offers greater convenience and time saving to the investors. However, the role of people, that is, the employees who sell the PMS to the customers cannot be ignored. It is not an easy job to convince investors to place all their assets and trust in the hands of a portfolio manager. This needs excellent convincing skills to impress the customer and get him to trust a stranger, though a professional, with his investments.

### Promotion

As PMS is a specialized service targeted at a select few customers, companies would do well to employ promotional strategies like personal selling and price discounting, instead of going in for advertising and publicity. Some companies offer price discount schemes wherein only the performance fee is charged, that is, the customers need to pay only if their portfolio performs well. Such schemes definitely attract customers in the initial stages. PMS companies can tie-up with reputed banks to add credibility to their services. For example, Deutsche Bank offers investment tips to its clients from Prudential ICICI Mutual, while Standard Chartered Bank offers customized portfolio management services to customers of Templeton.

### Process

The process of portfolio management starts with understanding the requirements of the customer and his profile. This includes understanding his investment objectives, liquidity constraints, time horizon, tax status and risk profile. The next step is the asset allocation to different segments of the portfolio like mutual funds, insurance, bonds, bank deposits, real estate, etc., and then comes execution of the plan after the security selection decision is taken. Finally, the performance of the portfolio is tracked and necessary action taken from time to time to improve the returns for the customer. The portfolio needs to be changed depending on changing customer needs as he proceeds from one stage to another in his life cycle. The different steps involved in the process of portfolio management determine the effectiveness of the service and so need to be managed carefully. The communication channel between the customer and the manager should always be open and there should be transparency. At the same time, the customer should not face any hassles and the processes should be simplified.

### Physical Evidence

Like for most financial services, providing physical evidence is not very easy for the service provider of PMS. However, since it is a high involvement service and the customer's investment is quite high, there is a greater chance of the customer visiting

## Services Marketing

the office of the service provider. As part of physical evidence, the service provider's achievements, clearances from regulatory bodies, quality compliance certifications like ISO 9001:2000, past performance and certificates from reputed clients can be displayed in the office of the PMS provider. In communications to the clients, these achievements and certifications can be conveyed using innovative and attractive brochures. The infrastructure and the ambience should convey the message of trustworthiness of the service provider and the quality of service.

### **RECENT TRENDS IN PORTFOLIO MANAGEMENT INDUSTRY IN INDIA**

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The portfolio management services industry in India was almost non-existent till the early 21 century. However, it has since emerged as a strong player in the financial services sector. Whatever developments have taken place in the industry are quite recent and have contributed to the growth of this industry.

- Special service providers are offering services to institutional investors
- It is not only the high net-worth investors but common investors too, who are being targeted
- Special portfolio management services are being offered to NRIs
- Indian investors are forcing their portfolio managers to come up with new ideas
- SEBI is working on fresh guidelines for portfolio managers so as to reduce regulations

### **SECTION SUMMARY**

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Portfolio management service refers to managing the funds of a customer taking into consideration their short-term and long term needs. As the customers may not have the time or expertise, their assets are managed by the portfolio managers who invest in different financial instruments like bonds, insurance, stocks, real estate, etc. The market for these services is divided into discretionary services and non-discretionary services. In the case of non-discretionary services, the decision-making regarding investments lies with the customers, whereas in the case of discretionary services, it vests with the service provider.

The product needs to be designed to suit the specific needs of individual investors. A standard product might not suit the needs of all investors as their needs and profiles differ. The price of portfolio management services is generally calculated as a percentage of the net asset value or a percentage of the returns or profits earned on the investment portfolio. People assume center stage in portfolio management services, as portfolio managers determine the success of an investment portfolio. Process plays a pivotal role; it starts with understanding the customer profile and needs and ends with performance evaluation of the portfolio. In providing physical evidence, the service provider's achievements, clearances from regulatory bodies, quality compliance certifications like ISO 9001:2000, past performance, etc. can be used effectively through brochures and displays.

The PMS business in India, which was nonexistent till the beginning of the century has emerged strongly as the income levels of Indians have been increasing at a fast pace. More changes can be expected in the sector with more global players entering the market through strategic tie-ups and SEBI being expected to introduce some reforms in the sector.

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**Chapter 26**

**Communication and  
Information Services  
Marketing  
(Telecom & Courier Industries)**



# Telecom Industry

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**In this section we will discuss:**

- Characteristics of Telecom Industry
  - Market Segmentation
  - Marketing Strategy
  - Marketing Mix
  - Recent Trends in Telecom Industry
  - Future of Telecom Industry in India
- 

In India, the government owned telecom service providers like DoT and BSNL dominated the telecom industry for several years. It was only in 1994 that the telecom industry was opened for private players. This decision of government changed the face of Indian telecom industry. Price wars started and charges reduced to such a level that even the common man could think of having a phone connection, which was earlier the luxury of the rich. The efficiency of service also improved dramatically and phone connections, which earlier took a year to be sanctioned under the monopoly of BSNL, began to be issued within a few days. The concept of customer service that was almost non-existent, gained importance with both government and private players vying for larger market share. A new entrant in the industry today would be trampled by the competition unless it differentiates itself from the crowd.

In this discussion on telecom industry, we shall understand the characteristics of telecom industry, market segmentation, marketing strategy, marketing mix and recent trends in global telecom industry. We will also discuss the telecom industry in India.

## CHARACTERISTICS OF TELECOM INDUSTRY

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Before entering any industry, entrepreneurs need to analyze the characteristics of the industry and understand them to understand the industry trends. They also need to perform a SWOT analysis to estimate how they can use their strengths and eliminate their weaknesses given the opportunities and threats in the market. Some of the characteristics of the telecom industry are discussed below.

**Entry and Exit Barriers:** Telecom industry is characterized by high entry and exit barriers. Service providers need to invest huge capital to build or hire the necessary infrastructure for providing services to customers. For example, Tata Teleservices in India invested an amount of Rs.7,533 crore for setting up the required infrastructure. Because of the high cost of capital involved, in most countries, the government owned telecom service organization enjoys a monopoly. Thus, the telecom industry is heavily regulated by the government. Even in an open industry where the private players are allowed to operate, if a player finds it difficult to compete and wants to quit the industry, finding a right buyer is a formidable task. The buyer should be willing to pay the huge amount, enter the market and face the challenges.

**Customers:** When there are many players competing in an open telecom industry, customers benefit from the competition. They can bargain for the best service and the best price in a buyer's market. They can easily switch from one player to another without having to bear any switching costs. This makes it difficult for telecom service providers to retain customers. Customers are highly quality conscious and demand supplementary services. They also want the best bargain in terms of the price of the services. If industry players fail to meet any of these demands by customers, they risk losing them to competitors.

## Services Marketing

**Competition:** The intangible, inseparable and heterogeneous nature of telecom services poses difficulty to new players in attracting potential customers. It also makes it difficult for the existing players to retain their customer base. Therefore, players attempt to convince customers by offering various supplementary services using advanced technology. To provide quality services, telecom service providers need a robust IT infrastructure. Unless players find reliable suppliers who provide quality equipment and superior technology solutions, they will not be able to provide satisfactory service to the customers.

## MARKET SEGMENTATION

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Market segmentation is the basic step for any service provider before deciding on the segment to be served and the marketing strategy required to serve it. Therefore, let us start with an understanding of market segmentation of the telecom industry in India. The market for telecom industry can be divided into following segments based on the consumer-

**Individual:** The most important segment is that of individual customers or households. Because of the monopoly of government owned telecommunications sector in India, people earlier paid very high prices for communication services. After the basic telephone services were opened for private players in 1994, many players entered the market and the prices came down owing to competition. The number of individual users for telephones increased significantly, as the reach improved and service efficiency increased. India however lags behind many other developing countries in telephone line density<sup>1</sup>. The phone line density in India is 4.5% as against 48% in Brazil, 27% in China and 21% in Philippines. Indian government is trying to meet the individual communication requirements by setting up public telephone booths.

**Corporate:** Corporate communication includes the communication of information between two units in two different locations of a city, of a country or in two different countries. Business communication can take any form, telephonic conversation letter, e-mail, fax, etc. It is important that the message be conveyed clear and fast, without any distortions for the business to function effectively and efficiently. Telecom industry relies heavily on the corporate sector for its business. The corporate sector contributes to the heavy traffic on telephone lines during the daytime. This has led the telecom companies to offer lower tariffs in the early mornings and late evenings to shift the demand when most businesses are closed.

**Rural:** During the monopoly of the government owned service providers, the worst affected customer was the rural customer. The reach was bad and the quality of service provided was even worse. The telecom revolution of the late '80s and early '90s saw a change in the rural telecom scene. Because of the government's initiative to lay down cables in rural areas and provide basic telephone services at subsidized prices, the reach of telecom services to remote areas has improved. The efficiency of the services has also improved.

**Urban:** In urban areas, the number of telephone subscribers is significantly higher than rural areas. This is because of not only the available infrastructure but also the presence of educated masses, which are comfortable using technology and therefore use it more frequently. In fact, Urban India has grown to become dependent on telecom services. This is one of the reasons why most cellular service providers start their business in the cities first and then proceed to capture the rural areas.

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<sup>1</sup> Telephone line density can be defined as the number of telephone lines per 100 people of the population.

## Communication and Information Services Marketing

On the basis of the product/service offered, telecom industry can be divided into following segments –

- Fixed wire line/wireless services
- Mobile services
- Internet service
- Video telecom services

### MARKETING STRATEGY

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Telecom service providers need to design an appropriate marketing strategy to face the competition and survive in the market. Following are some of the important steps required by the management to design an effective marketing strategy.

- **SWOT Analysis:** Telecom players should analyze their own strengths and weaknesses vis-à-vis the opportunities and threats in the market. Suppose a telecom player has an innovative service offer and efficient service personnel to market them. These are his strengths. However, say he lacks the resources to adopt advanced technology and promote the services aggressively. To overcome these weaknesses, it can always tie up with strong players in the telecom market or other related industries. For example, Birla tied up with AT&T to gain from the reputation of latter in the telecom industry. Telecom players should also carefully analyze the threats and opportunities posed by technology, competitors and the external environment, and formulate suitable strategies to overcome threats and exploit opportunities.
- **Demand Forecasting:** Telecom players should conduct a market survey to analyze the demand for various services among the target customers. For example, when telecom companies saw the need for written message transfer from the sender to the receiver, they introduced the concept of SMS (Short Messaging System). As telecom industry is one of the fastest growing industries in the world, there is intense competition among the players with each player trying to gain a lead over others in the market. A market survey would enable the players to identify potential demand for various services, the new services that customers desire or expect and cater to them. Moreover, they should also identify the factors that drive demand for their services and track the growth in these drivers to predict demand accurately and cater to it.
- **Service Strategy:** Telecom players should constantly upgrade their services to meet changing customers' needs. For example, cellular service providers initially offered only the basic communication services. However, customers now expect and demand subsidiary services like call waiting, call holding, automatic alerts, sports information etc.
- **Pricing Strategy:** Telecom players need to determine the price of their services carefully. If they price their services too high, above the perceived value by customers, customers might switch over to competitors offering those services for lesser prices. On the other hand, if they price their services too low, they would not be able to recover the cost and thus get into losses. In fact, owing to the intense competition in the Indian cellular industry and the slow growth, 90 percent of the cellular operators are still in the red. Normally, service providers in this industry use pricing methods like cost-plus pricing, target profit pricing, break-even analysis and prevailing value pricing.

If a telecom player introduces an advanced technology based service that is not offered by any other player in the area or country, then the telecom player can charge a premium price from customers. For example, when NTT Docomo introduced internet-based services on mobile phone for the first time in Japan, it

### Exhibit 26.1

#### Airtel's Positioning Strategy

Bharti decided to introduce a tariff plan (specifically) to attract the youth in the cluttered market. The service, called Youtopia, planned to cash in on the fact that with reduced tariffs, cellular phones would become accessible to teenagers. By targeting youth in the age group of 14-19 years, Bharti planned to expand the customer base, which was presently limited to the older age groups. Youtopia was a clear deviation from Airtel's earlier positioning as a brand for older people symbolizing dignity and power.

Youtopia offered lower tariff rates (at Re.0.25 for 30 seconds) at night. Special merchandising exercises were also undertaken. For instance, a special portal was created, where young people could buy or bid for goods. The company also announced plans for providing customers with various other services such as music download facilities, and SMS (Short Messaging Service) rates at affordable prices. According to the analysts, the company's repositioning strategies paid back well as Bharti became the leading player in most of the circles (it operated in) across the country by early 2002.

*Adapted from A. Neela Radhika, "Airtel Positioning (and Repositioning)," ICMR*

targeted the youth and charged a premium price. However, if all the players in a market are offering similar service and similar supplementary services and other benefits as well, a telecom player aiming to penetrate the market has to price its service lower than others. Sometimes, government policies and regulations prevent telecom players from having control on price factor. For example, in India, TRAI (Telecom Regulatory Authority of India) wields control over the telecom industry.

- **Positioning Strategy:** Telecom players need to identify the different segments that need different services and position their services for the targeted segments. When there were only a few players in the mobile communication services segment, the tariffs were very high. Airtel positioned its services exclusively for the higher-income segment. At that time, Airtel charged Rs.16 per minute. When the tariffs were reduced after many private and government players entered the cellular services market, pulse rates came down (Refer Exhibit 26.1). Airtel then repositioned its services for the common man.
- **Promotion Strategy:** Telecom players should choose the promotion medium depending on the kind of service they offer. For example, in India, if a telecom player wants to target young people belonging to the middle and upper class families, they can choose a medium like the Internet or billboards near colleges, parks, restaurants, movie theaters, etc. Moreover, telecom players need to allocate budget for advertising across different media wisely. They have to determine the money to be spent for advertisements on TV, radio, newspapers, magazines, billboards, and other media. When Airtel introduced pre-paid cards that customers could choose depending on their monthly budget for communication services, it advertised in all kinds of media with special emphasis on TV. Similarly, when Tata Teleservices offered STD services at 20% lower rates than the prevalent rates in the market, it organized events in cinema theaters and distributed prizes to winners. Such events enable organizations to generate awareness about their services among target customers. Telecom players can also advertise their services by setting up attractive service outlets. In addition, they distribute signboards to retail stores marketing their services. For example, Hutch gives signboards to retail stores that sell its prepaid phone cards.

Telecom players can also set up temporary marketing campuses in different localities, where their service personnel make live demonstrations of various services offered by them and convince people who watch the demos to purchase

## Communication and Information Services Marketing

their services. For example, Tata Teleservices sets up camps along side of main roads, in commercial complexes, near offices etc. Sales representatives sitting in these camps explain the various services offered by the company, answer the queries of people and encourage them to buy the services.

Some telecom players, especially Internet Service Providers (ISP) sell their services using telemarketing.

- **Implementation:** Framing the marketing strategy will serve only half the purpose of the organization. It is only when the strategy is implemented successfully that the organization realizes its goals and objectives. However, management often faces many challenges in implementation. Strategies are based on certain assumptions regarding the market potential, demand, competitive environment, etc. In the telecom industry, where technology and customer expectations change fast, all these variables also change rapidly. Therefore, the management has to continuously monitor the telecom environment, revisit their strategies from time, and revise their plans and targets accordingly.

## MARKETING MIX

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Unlike manufacturing organizations that focus on the four P's of the marketing mix, service organizations need to concentrate on seven P's, i.e., product, price, place, promotion, people, physical evidence and process. Let us discuss how telecom service providers attempt to design these seven P's to constitute appropriate marketing mix and face the challenges in the telecom industry:

### Product/Service

Technology and the changing needs of customers have prompted the telecom industry to introduce different products, services and their variations to the customer. This has also helped some of the players create a market for their services, instead of competing with other players in the cluttered market. However, telecom players are forced to continuously introduce innovative services to sustain and thrive in the highly competitive market. Exhibit 26.2 explains the services offered by BSNL. The various products and services offered by telecom industry are discussed below.

#### Fixed land line/wireless services

Fixed landline service allows customers to communicate only from a particular place. The common landline connection offered by BSNL and other players is the basic service. Using some special equipment and technology like a cordless or a speakerphone, the user can enjoy some mobility, but that is very limited. Fixed wireless service offers more mobility than the fixed landline but that also has its own limits. Fixed land line/wireless services offer following services to customers:

- a. *Short distance services:* These services allow users to communicate with people within a given region. For example, a person residing in Delhi can communicate only with people in Delhi. The requirement for local distance services is met by the electronic exchanges set up at various locations offering digitalized Public Switched Telephone Network (PSTN) system.
- b. *Long Distance services:* Long distance services can be further divided into NLD and ILD services. NLD (National Long Distance) services allow a customer to communicate with people residing anywhere in the country. ILD (International Long Distance) services allow the customer to communicate with people residing anywhere in the world. Initially, ILD services were offered only by the government owned VSNL (Videsh Sanchar Nigam Limited). Private players are also entered the fray with the introduction of telecom reforms. In 2002, Net4India, an Internet service provider (ISP) obtained permission from

### Exhibit 26.2

#### Services Offered by BSNL

BSNL offers the following services:

- *Basic telephone service:* It facilitates communication between people.
- *Internet service:* It enables users to access Internet using BSNL phone connection, PC and a modem for Internet connection.
- *ISDN (Integrated Service Digital Network Service)* which facilitates transfer of data, voice and image over the same line.
- *Intelligent network:* It provides specialized and customized services to customers. Corporate customers generally opt for this service. For example, toll free number, virtual private network (to facilitate communication among identified personnel at cheaper rates, universal number (that does not change from place to place), televoting (facility to conduct opinion polls and surveys), etc.
- *I-Net:* It enables different branches of organizations located within the country and even overseas to be connected by WAN (Wide Area Network) and communicate with each other.
- *Leased lines and datacom:* It facilitates communication between offices and factories located at various areas within a city or different cities. In addition, it enables organizations to choose between high, medium and low speed data circuits ranging from 64 Kbps to 2Mbps.
- *Cellular mobile service:* It is available throughout the country including Jammu and Kashmir and northeastern states.
- *Wireless in local loop:* It offers superior voice quality and high-speed data capabilities. It also offers the special equipment required to avail the service to customers on the payment of additional Rs.20 per month.

Adapted from <[www.bsnl.co.in](http://www.bsnl.co.in)> accessed on 10 June 2004.

government of India to offer international long distance services to customers. According to Net4India, the market for ISD services in India is US \$ 1.5 billion and it will increase by 25% (amounting to US \$1.875 billion) by 2007.

#### Mobile services

Mobile services allow customers to communicate while on the move. Mobile services are also called cellular services. Mobile service providers divide a region into cells and establish a radio base station (RBS) in each cell. All RBSs are connected to a central switching center from where the entire system is monitored. Mobile service providers offer limited mobility and roaming facilities. Limited mobility allows users to communicate within a given area. Roaming facility allows users to communicate over the mobile, wherever they are in the country (international roaming is also offered by some service providers). For example, a customer from Mumbai can use his mobile effectively even when visiting Hyderabad using the roaming facility. Mobile services can be categorized as follows:

- a. *Cellular phone service:* It includes satellite mobile communications service, in-flight telephone service, packet communication service and cellular services.
- b. *Personal Handyphone System (PHS) service:* Personal Handyphone system (PHS) works as a cordless phone at home and as a mobile phone outside. PHS services are offered on personal digital assistants (PDA) and notebook PCs.
- c. *Pager service:* It enables users to receive text messages. The person who sends the message bears the cost while the person owning the pager pays subscription.

## **Communication and Information Services Marketing**

This service is now also available on mobile phones in the form of SMS service. SMS service has become a great marketing tool and is being used by many companies to promote their products/services. Companies conduct contests where the audience/customers are required to respond through an SMS.

### **Internet**

It allows people to access information including text, voice and images from anywhere in the world and in real time. For example, a person in India can send written messages to his friend in the US, talk to him and even view the image of his friend on the computer monitor.

### **Video telecom services**

They include video conferencing, videophone, videotext, etc. They are used by various service providers including road transportation, railways, airways, corporates, banks, hotels, educational institutes and government departments.

Apart from the above services some services like fax (through Very Small Aperture Terminal <VSAT > networks), voice mail, direct access card dialing are also offered by telecom players. In addition, some services called functional services are offered. They are value-adding services (eg. call center management, billing, etc.) provided by telecom service providers with the help of advanced technology.

## **Price**

Service providers can use cost-based, competition based or demand-based pricing. Most service providers in the telecom industry today are resorting to competition based pricing, which has led to low prices of the services. This has proved to be quite beneficial for the customers, but the telecom companies are struggling to make profits.

In the fixed line industry, customers have only one option of payment, that of post-paid. That is, customers pay a fixed amount as rent and the usage charges at the end of the billing period. In cellular industry, service providers offer two options to customers, pre-paid and post-paid. In case of prepaid service, customers buy a card available from retail outlets to activate or recharge their service. The price of the card covers the rent fixed by the service provider plus the cost of certain amount of airtime. For example, Airtel offers different cards with different amounts of airtime and allows its customers to choose from them depending on their need. Though initially, prepaid service was available only for mobile phone users, BSNL is now making prepaid service available for landline users also. In case of postpaid service, depending on the number of calls made by the customer and other services used by him, a detailed bill is prepared and sent to the customer. The total amount to be paid by a customer per month depends on the rent and the services used by him. The customer can make the payment by cash/cheque/credit card at one of the service provider's outlets. Some service providers also allow online payment through Internet. BSNL and MTNL for example allow their customers to make online payment.

## **Place**

When DOT/BSNL was the only service provider, customers had to go to different locations for different services. Applications for new telephone connections or for transferring a connection from one place to another were accepted only in one major telephone exchange located in the city. Bill payments were accepted in local telephone exchange office located in certain areas. One had to personally go to the office, stand in the queue and make the payments. There was another department for receiving complaints. It took a long time, even a year, to obtain a telephone connection. Complaints remained unattended for several days after a customer registered his complaint with the local telephone exchange.

## **Services Marketing**

After the entry of private players like Tata and Bharti, things have improved. Most private players have offices at various locations and provide multiple services through them. They are also accessible through the internet. BSNL too set up offices at multiple locations to accept applications for new connections, transfers and payments. For example, in Hyderabad, people can pay bills through e-seva centers. Mobile service providers like Airtel, Hutch and Reliance Infocomm have one-stop shops where customers can purchase handsets, get new connections, subscribe to various value-added services and pay their bills.

## **Promotion**

Telecom service providers use direct marketing, advertisements in newspapers, TV, Radio, billboards in public places, etc. to promote their services. In 2002, Airtel used a TV commercial endorsed not by film stars or sports stars but by a successful music composer, A.R. Rahman to promote its brand. Rahman also composed five exclusive symphonies downloadable as ring tones for Airtel users. Telecom services also sponsor some contests or events to attract public attention and gain wide publicity. For example, in 2003, Reliance Info sponsored a contest for a successful Bollywood film, Kal Ho Na Ho.

Owing to the intense competition in the cellular services sector, the promotion campaigns are quite innovative. Hutch for example launched an advertising campaign using a small boy and his pug, which caught the attention of customers. Hutch also offers discount coupons to its customers, to be availed at various restaurants and lifestyle stores across the city. This helps the company retain its customers and also attract new ones.

## **People**

Customer orientation is crucial to telecom service providers in winning new customers and retaining the existing customers. When customers report any problem with the service, service provider should send people immediately to get the problem rectified. However, when BSNL/DoT enjoyed monopoly, service personnel did not turn up for days together even after customers reported a problem. The fact that it was the only service provider resulted in excessive load as well as complacency. However, with the entry of private players like Tata Teleservices into the industry, things changed. The new private players emphasized customer satisfaction. They ensured that their service personnel answer customer queries promptly and professionally and attend to their problems immediately. This has brought a change in the working of the telecom industry as a whole.

## **Physical Evidence**

Telecom service is intangible. A user cannot judge the quality of the service offered by a service provider unless he uses it. Telecom service providers however offer some tangible products to customers to serve as physical evidence. They provide customers with a telephone directory that includes names and addresses of all their subscribers. Every year, an updated directory is provided to all subscribers free of cost. However, mobile service providers do not provide such directory because mobile phones are considered personal devices. Reliance Infocomm, however, makes the information about mobile numbers and names and addresses of its subscribers available on reliance network.

Telecom service providers also focus on the voice instrument given to customer. When Tata Teleservices entered telecom sector, it gave sleek and attractive looking phone instruments to its subscribers to compete with the phone instruments supplied



by BSNL at that time. Later, BSNL also began to focus on the looks of phone instruments given to customers. Telecom service providers also focus on ambience of their service outlets. Reliance Info invests about Rs.30 lakh to one crore on building its service outlets.

### Process

Telecom service providers should offer reliable, continuous, quality service to customers. When Tata Teleservices entered the telecom industry, its sales executives visited individual homes, shops and organizations identifying people in need of a phone connection and quality service. If a customer asked for a phone connection, he got it within three days. Now BSNL has also improved its service processes. It has a computerized system that receives complaints from customers round the clock and service personnel attend the customer within 24 hours. One can also obtain the bill information by contacting the number provided for the purpose. Telecom service providers also send detailed bills on request, describing the number called, amount of time spent on the call and the charges incurred. They should however ensure that errors are not committed in billing. This can be a major source of dissatisfaction for customers. In the past, many customers had complaints against BSNL of overcharging them. Some customers who could not settle the issue with BSNL got their phone disconnected and switched to other players. Therefore, telecom players should strive to send error free bills to customers. They should continuously strive to improve their service processes. However, telecom service providers should try to achieve improvement in service process without incurring additional costs in doing so. This is especially important because of increasing competition in the telecom sector.

## RECENT TRENDS IN TELECOM INDUSTRY

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The face of telecom industry is rapidly changing with the emergence of new technologies and changes taking place across the globe. Let us first discuss changes in technology:

### Technology

For many years, after Graham Bell invented the phone, it was used only to hear the voice of the person at the other end. Communication was possible only when the person being called lifted the phone and attended the call. Then voice recorders were attached to phone so that the calling person could record his message. Fax is another useful feature offered by advanced technology. One can send written message, to the other person at the other end using Fax machine.

With further development in technology, videophone came into the market. Using this, one could view the picture of the person talking over the phone. Another parallel development is the video conference. Using videophone, at a time, only two persons could communicate over the phone. However, video conference allowed several people located at various locations to converge with each other and even view each other on the screen. GSM (Global System for Mobile Communications) technology brought revolutionary change in the world of communication by leading to mobile phones and facilitating communication on the move. Mobile phone also includes all the features that are discussed above for fixed phones.

Apart from that, mobile phones also allow people to receive SMS, e-mails, and even access internet services. Companies are trying to develop technology that allows people to use their own language to book a ticket/room in any part of the world and the message can be translated into the language of the person at the other end.

## Services Marketing

Fiber optics has also brought drastic change in the field of telecommunications. A single pair of optical fibers can transmit 300 billion bits per second, i.e. 50,000 phone calls can be transmitted simultaneously on them. Efforts are being made to improve the capacity further. Code Division Multiple Access (CDMA) is also another significant development in telecom industry, which made GSM technology obsolete. It is a basic digital wireless technology that allows multiple cell-phone users to share the same frequency band by transmitting simultaneous signals. It also enables data, text and voice to be transmitted to the destination simultaneously. Wireless Local Loop (WLL) allows people to use their phone as cordless at home and as a mobile phone outside. A person can use the device for communication within a given range of area. Now, global companies are focusing on W-CDMA (Wideband CDMA) and other technologies to further improve the quality of services. However, the pace of technological innovation is so high in telecom industry that the players are always haunted by risk of their innovation becoming obsolete even before it is launched in market.

## Globalization

The large-scale investment and long-term commitment required to survive in telecom industry keeps small and medium players away from the industry. That is the reason why we see only a few big names such as AT&T, Verizon, MCI, Bell South and SBC communications in the world telecom market. In this industry, one has to invest huge capital on setting up the desired infrastructure like optical fibers and other equipment. Then they have to wait for a long time to break even and start making profits. During the period, if competitors enter the market and begin price wars, it may take even more time to obtain return on investment. Sometimes, the existing technology may become obsolete and the service provider may need to make new investment in the technology to be able to offer new services and compete with new players. Therefore, in most countries, one or a few big players dominate the telecom industry. For example, in India, government-owned BSNL is the major player; in Japan, NTT DoCoMo is the largest cellular service provider; in Germany, T-Mobile and Vodafone are leading cellular operators and in the US, AT&T is the major player. In addition, telecom players may need to invest in R&D to stay ahead of competitors. The need for continuous R&D in telecommunication market is one of the many factors that led to globalization in telecom industry. For example, NTT DoCoMo established an R&D center in Europe to conduct research relating to network infrastructure and security transactions. In South Korea, it worked with SK Telecom Company to conduct research on W-CDMA (Wideband CDMA) technology. To exploit the opportunities in the market, Sweden based Ericsson, a major player in global telecom market, invested in a R&D center in China. Through this center, Ericsson and China Academy of Telecommunications Technology (CATT) will exchange knowledge of 3G communication systems.

In 1990's, telecommunication industry across the globe registered very high growth rates. However, at the end of the century, the economy took a downturn and telecom players started facing problems with decline in business. However, with the improvement in economy by 2003-04, global telecom industry picked up. According to Telecommunications Review and Forecast, published by the Telecommunications Industry Association, in the US alone, telecom industry will register a growth rate of 9.2% during 2004-07 and generate revenues of \$1 trillion<sup>2</sup>. China, with its vast population base and increasing spending power of people, will be the largest market for cellular operators in the world.

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<sup>2</sup> Roger Slavens, "Telecom industry sees growth in '04," B to B, 9 February 2004, Vol. 89, Issue 2

## **FUTURE OF TELECOM INDUSTRY IN INDIA**

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According to a Frost & Sullivan study for the period of 2002-2006, the telecommunication market in India is expected to increase by 13% annually<sup>3</sup>. The teledensity in India is expected to increase to 10% because of the aggressive marketing efforts of telecom players. Major telecom players in India are MTNL, BSNL, Tata Indicom, Reliance Infocomm, Airtel (Bharti Telecom), Hutch and BPL. According to Morgan Stanley's report, the telecom market in India (including basic, mobile, NLD, ILD and data service) will increase to Rs.81,000 crore in 2007 from Rs.41,000 crore in 2002<sup>4</sup>. According to a report presented by Nasscom and Morgan Stanley, mobile service segment will be the fastest growing segment in India with revenues increasing to 12.41 billion dollars in 2004-05. The subscriber base of cellular service providers using WLL-CDMA technology will increase by 86.6% (amounting to 14 million subscribers) in 2004-05 whereas the increase will be only 40% (amounting to 35 million) in the subscriber base of providers using GSM technology<sup>5</sup>. The revenue of the cellular operators using WLL-CDMA technology will increase to 681.32 million dollars.

Telecom players are reducing their prices drastically to attract customers and increase their market share. The price war has also extended to NLD and ILD services. Therefore, telecom players are concentrating on effective utilization of existing infrastructure rather than making investments on advanced technology and enhancing the quality of their services. According to a report, basic communication service providers are not able to meet the benchmark for quality set by TRAI. For example according to TRAI, broadband refers to always-on data connection that is able to support various interactive services, and has the capability of a minimum download speed of 256 Kilobits per second<sup>6</sup>. However, few ISPs offer the service of this quality.

In telecom industry, there have been many mergers, acquisitions and tie-ups between various service providers. The players seem to be consolidating to achieve economies of scale and improve their profitability. There may be further consolidation in the telecommunication market. Tatas merged with Birla-AT&T, Bharti Telecom acquired Spice Telecom and Batata entered into strategic tie-up with BPL cellular. Further, Tata Teleservices acquired VSNL in 2002 and Tata's Idea bought Escotel. To enhance its basic telephone service business, Tata also tied up with Hughes Tele.com. There may be further consolidation in the telecom industry leading to only a few major players operating in the industry.

## **SECTION SUMMARY**

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Telecom industry poses high entry and exit barriers. Telecom players need to invest heavily on equipment, cables and other assets and technology and they have to wait for years to obtain return on their investment. The market for telecom industry can be divided into individual, corporate, rural and urban segments. On the basis of product offered, the market can be divided into fixed, mobile, internet and video telecom services. A player desirous of entering telecom industry needs to analyze its strengths

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<sup>3</sup> "Telecom Industry To Grow By Over 13% In Next 5 Years: Frost & Sullivan," [http://www.financialexpress.com/fe\\_archive\\_full\\_story.php?content\\_id=25446](http://www.financialexpress.com/fe_archive_full_story.php?content_id=25446)

<sup>4</sup> Venkatachari Jagannathan, "Ringing in the new," [http://www.tata.com/tata\\_teleservices/articles/20021113\\_ringing\\_in\\_the\\_new.htm](http://www.tata.com/tata_teleservices/articles/20021113_ringing_in_the_new.htm)

<sup>5</sup> "WLL Subscriber base to hit 14 million in FY-2005," 9 June, 2004

<sup>6</sup> "Telecom Services Sector in India," [http://www.tata.com/tata\\_sons/releases/20020212\\_telecom\\_story.htm](http://www.tata.com/tata_sons/releases/20020212_telecom_story.htm)

## **Services Marketing**

and weaknesses in terms of financial resources and technical expertise and its ability to face threats from changes in legal and political conditions and competition and technology. It should also have strategies in place to exploit any opportunity that emerges in the market. Each player should design an optimum marketing mix that enables it to establish an edge over competition. There are limited global players in telecom industry and they are competing with each other in their spend on R&D. In India, major telecom players are acquiring smaller players and expanding their business, leading to consolidation.

## Courier Industry

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**In this section we will discuss:**

- Characteristics of Courier Industry
  - Market Segmentation
  - Marketing Strategy
  - Marketing Mix
  - Recent Trends in Courier Industry
  - Indian Courier Industry
- 

In the past, people had to depend on government's postal service and transportation service for moving their freight. The delivery took lot of time and people had to go to the post office, railway, or shipyard to receive or trace their packages. Some private individuals operated their own vehicles to offer speed and convenience to customers. People who had to deliver packages urgently handed them directly to airlines to be carried as cargo on passenger airlines. Passenger planes traveled to limited destinations, which limited their scope. Fredrick Smith, an entrepreneur identified the opportunity and established Federal Express (FedEx) in 1973. Smith operated flights exclusively for cargo and offered home delivery and pick-up services. The business model was a big hit and there was no looking back for the company. Many other companies imitated the model with their own fleet and value-added services, and led to the growth of courier industry. In this chapter, we will discuss the characteristics of courier industry, marketing segmentation, marketing strategy, marketing mix, recent trends in global courier industry and Indian courier industry.

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### CHARACTERISTICS OF COURIER INDUSTRY

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Before entering the courier industry, a player should know the characteristics of the industry and then evaluate his own ability to survive in the industry while competing with other players for a market share. Courier industry has the following characteristics:

**Entry and Exit Barriers:** The courier industry is not heavily regulated by government. The state-owned package transportation service providers fail to give tough competition to private players unlike the telecom industry where the state-owned service provider is a major competitor. However, the service provider has to be prepared to invest heavily in infrastructure, distribution network, technology and manpower training. In addition, a courier service organization that wants to serve customers with overseas transportation requirements needs to spend on brand building and develop tie-ups with international carriers like UPS, FedEx and DHL. This is because it might be practically impossible for the company to set up a strong global network on its own. Though there are no barriers set up by the government to exit the industry, the players may face some difficulties if they decide to exit. This is because courier service organizations tend to invest heavily in infrastructure, logistics and brand building. They may find it difficult to get the right price when they want to wind up. However, local players who do not make huge investments in infrastructure and assets, but rely on the local network, can quit the industry with ease.

**Dependence:** The growth of courier industry is highly dependent on the growth of other industries, rate of growth of economy, growth in imports and exports business, etc. If there is decline in any of these, there will be a decline in growth of courier

## Services Marketing

industry as well. This is because, apart from individual customers, the service provider mostly serves other marketers. Therefore, their business is dependent on other businesses and their growth.

**Customers:** Customers demand quality service. They want the service provider to deliver their packages within the promised time and in perfect condition. In addition, they want the service at competitive price. They also expect the service provider to provide the latest status of their shipping whenever they contact the customer service representative for information. They expect the service provider to provide a pick-up and drop point within their reach. Apart from these expectations, courier service providers also need to face intense competition from both organized and unorganized players in the industry.

## MARKET SEGMENTATION

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In order to be able to serve customers effectively, courier service providers need to segment their market and understand the needs of customers in each segment. Based on this understanding, they can decide which segment to serve and how to position the service in the customer's mind using the seven P's. The market for courier industry can be divided into following segments:

**Individual:** This segment consists of personal letters, envelopes, packets and cartons that need to be delivered to various destinations within the service limits of the service provider. Sometimes these deliveries may also need to be made to other countries in the world. For example, customers can send Alphonso mangoes to their dear ones abroad, using the special services of DHL, called the DHL Mango Express.

**Corporate:** This segment consists of official letters, documents, product samples, products etc. to be delivered to destinations within the country or outside the country. For example, a chemical company may send samples of material prepared by it to a client in the same country and an equipment manufacturer may send a machine to overseas client on order. Corporates also send special gifts to their clients when it is festival time.

**Small and Medium enterprises:** This is also an important segment for players in the courier industry. Though leading players in the courier industry like DHL ignored this segment initially, they are now concentrating on this segment as well in a bid to expand their business.

Based on the type of delivery, courier industry can be divided into the following segments:

**Same day delivery:** In this segment, goods are delivered to the destination the day they are collected from the customer. However, the same day service is offered only for destinations within the country.

**Overnight delivery:** In this service, shipments are delivered the next day or later, depending on the distance to be covered.

## MARKETING STRATEGY

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People opine that courier service is simple and one can just start earning profits by buying a few vans and delivering letters and parcels using them. However, to compete and survive in courier industry, service providers need to be professional, customer oriented, and capable of delivering shipments to various destinations safely and quickly. At the same time, they need to ensure that they maintain their profitability. This needs a well-formulated marketing strategy. The strategy should include the following elements:

## Communication and Information Services Marketing

**Analysis of External Environment:** Courier service providers should analyze the external environment to identify possible opportunities and threats.

**Opportunities:** Courier industry depends on the state of economy and should therefore first monitor the changes in economy. For example, if the economy of a country is picking up, courier service providers in the country can make more investment in expanding their facilities, increase work force and be prepared to cater to an increased demand for courier services from various businesses. Courier service providers should also invest in technologies that help them serve the customer better. This will provide them with competitive advantage and even charge a premium from customers for offering superior quality services. An IT tool that helps service providers keep track of the packages and provide the information to customers is an appropriate example.

Courier service providers should also look for legal and political changes in their own as well as foreign countries. If global companies enter their home country, courier companies should attempt to establish partnership with them so that they can gain from their technological and marketing expertise and gain access to foreign markets. For example, Blue Dart entered into an agreement with FedEx in 1997 to gain access to foreign markets. It ended this partnership and entered into a strategic tie-up with DHL in 2002. In addition to market analysis, courier companies should periodically conduct market surveys to identify the changing needs of customers and explore the potential for new services.

**Threats:** Courier companies should also identify threats and formulate strategies to overcome them. If the economy is on the downturn, courier service providers should not make investments on building new facilities or technology and instead concentrate on leveraging the existing infrastructure. If a courier service provider observes that competitors have come out with advanced technology solutions for a competitive edge, it should also try to obtain the technology (the upgraded version if possible) at the earliest to prevent any loss of business. If a provider observes that a political party that does not favor foreign companies has come to power in an operating country, it should try to reduce its stake in the country or send an able representative to negotiate with the new government. In addition, courier service providers should monitor competitors' moves like price reduction, business expansion, etc. and respond to them appropriately.

Apart from this, courier service providers should identify their own strengths and weaknesses in terms of financial resources, distribution network, technology, logistics solutions, work force, etc. They should leverage their strengths to exploit the opportunities and overcome threats. They should also strive to reduce weaknesses to offer better services to customers.

## MARKETING MIX

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Customers in courier industry value speed and safety. Now-a-days corporate customers look at courier companies to provide them complete logistics solutions. In order to serve both individual and corporate customers efficiently, courier companies need to give special attention to all the elements of marketing mix. Let us discuss these elements in detail now.

### Product/Service

The core service offered by courier companies is moving of documents and goods from one place to another. This service is packaged in different ways by different courier service providers to differentiate themselves from competitors. For example, Blue Dart offers door-to-door delivery of all documents and packages weighing below 32 kg to destinations in India, Bangladesh, Bhutan and Nepal. Some goods are perishable or their delivery needs to be made immediately because of commercial reasons. For such needs, most courier companies offer same day delivery service.

## **Services Marketing**

Courier companies should also focus on branding their services. Some domestic companies enter into partnership with global companies to strengthen their brand and the perceived value. All courier companies have their own logos and attractive slogans that help customers recall the service associated with them quickly. For example, Blue Dart says, “Solutions for peace of mind.”

### **Price**

The type of product being delivered, its weight, the place of delivery, the urgency of delivery, the mode of shipment used, regulatory clearances required and tariffs charged for them, etc. determine the price of courier service. Most corporate clients have a special arrangement with courier service providers. The client gives certain minimum amount of business every month to the service provider and enjoys a special discount on the shipping charges. The service provider in turn enjoys assured and repeated business.

Competition can pull down the prices in courier industry. However, the market players should ensure that the minimum costs that they incur on the delivery of shipment are recovered. If the players reduce prices below this level, it will lead to unhealthy competition and hits the bottom line of most players in the industry. In India, Elbee Services, one of the top players in the courier industry, recorded huge losses and took considerable time to recover.

### **Place**

Place plays a prominent role in courier industry. Customers prefer their products and packages to be picked up and delivered at their doorsteps. Therefore, courier companies need to develop an extensive distribution network in order to facilitate transportation of shipments to and from various destinations. For example, FedEx has 1250 service centers worldwide. Further, it has partnerships with domestic courier companies in various countries to be able to deliver shipments to various locations in those countries. Blue Dart has franchises and regional service participants (RSPs) to reach remote areas in India. Franchises collect documents and packages from customers and drop them at the central hub. In areas where franchises could not be established because of lack of enough demand for services, RSPs collect packages for Blue Dart.

### **Promotion**

Courier companies generally emphasize on speed, safety, reliability and efficiency of their services. They release advertisements in newspapers, magazines, TV, Radio and Internet. Blue Dart emphasizes on its ability to deliver faster because of its own fleet and airfreight, and multiple service centers. The company also advertises the latest technology used by it and the advantages offered by it. DHL mentions the list of offices it has in different countries in advertisements, which is a way of communicating to customers about its extensive network and scale of operations.

Courier companies also advertise and publicize their international tie-ups to promote the companies and their services. They also launch special promotional campaigns like the DHL's mango express. If the company delivers “ripe-in-time” alphonsos as promised and satisfies the customers, it can successfully add new clients to its existing customer base.

### **Physical Evidence**

Courier companies primarily offer a service that is intangible. Therefore, they attempt to bring tangibility through other aspects. For example, some courier companies make sure that their offices are located in areas that are easily accessible to individuals and corporate customers. They also keep their offices neat and well furnished to create a



**Exhibit 26.3**

**People Training at FedEx**

FedEx (Federal Express) lays heavy emphasis on employee training. It uses a variety of training programs. The human resource department of FedEx established training standards and regularly conducted audits to check program effectiveness. Employees are put through job rotation and cross-functional training to acquire multi-dimensional skills. This provides FedEx with the flexibility to respond to changing workload patterns and varying demands in skills. All employees receive proper training in job performance skills, as well as in the company's quality philosophy. FedEx uses Interactive Video Instructions (IVI) as a training tool. IVI allows employees to take advantage of slack periods to train themselves at any time of the day. The program was used for new information training, recurrence training, and a test preparation (customer-contact employees are tested twice a year on job knowledge). FedEx also uses workstation "tutors" for employee training. The tutors are computer-based-training (CBT) modules that help representatives practice and learn new skills at their workstations. For instance, when FedEx needs to change a business procedure, relevant information is loaded into the tutor at night. The next morning, the representative, sitting at his workstation, can practice the new procedures. Later, he is given a test. When the agent successfully completes the module, the system automatically updates his "user profile" to indicate that he is trained to handle the new procedures.

Other employee training programs include FAME (Field Applied Management Education) which is an 11-week management development program for new front-line managers in operations. FAME incorporates training in leadership and field operations. The FedEx Leadership Institute offers a diversity of courses in three basic areas: Core Management Principles, Outdoor-Based Learning, and Electives. In addition to this, FedEx has a corporate mentoring program that allows managers with three years of experience to learn from senior Executives. The program establishes cross-divisional skip-level relationships, designed to help, guide and develop the skills of the first two levels of management.

*Source: "Fedex," Global Strategic Management Case Studies on Fortune 500 Companies," Transworld University, p. 10.*

positive impression in customers' minds. For example, Blue Dart maintains well-furnished and centrally air-conditioned offices. It even offers free pick-up services to customers.

Courier companies also focus on packaging. The products to be delivered are packed carefully and neatly to prevent any damage to the contents. Most courier companies also have their own web sites, which enable people to track the status of their shipping. This is one of the best tangibles that can be offered to the customer. Blue Dart even allows customers to view the proof of delivery on its web site – a document confirming the date and time of delivery and signed by the receiver. The documents are also delivered physically to the customer. For some corporate customers, courier companies allow payment after delivery of the package.

**People**

In the courier industry, service personnel interact with customers. Therefore, courier companies need to give special attention to people training. People at the help desk and the marketing executives need to be trained in communication and interpersonal skills. People handling operations need to be trained to use the advanced equipment and provide logistics solutions to corporate customers (Refer Exhibit 26.3). The most important element of training is to be customer oriented. In its absence, the courier company would fail to satisfy the customer and lose its business eventually. Courier companies need to strive to retain people by implementing proper compensation and incentive systems.

## **Services Marketing**

### **Process**

The different steps that constitute the process in a courier company are picking up documents/packages from individual customers, sorting them according to their destination, placing them in appropriate modes of transportation, taking clearance from regulatory authorities, keeping the customer updated of the status of shipping, delivering the shipment to the right destination and mailing confirmation to the sender.

## **RECENT TRENDS IN COURIER INDUSTRY**

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Courier industry is undergoing drastic changes because of the changes in economy and advances in information technology. Let us discuss some of the recent trends in the courier industry and their drivers.

### **Technology**

Advances in technology have transformed the way courier companies operate. Courier companies are able to offer value added services to customers with the help of technology. Apart from ensuring a faster and safer delivery of shipments, they are able to conduct transactions and other business processes electronically. By doing so, courier companies are able to cut time and costs. They can also avoid the need to hire hundreds of additional employees by using IT intelligently.

Some advanced information systems used by courier companies include COSMOS (Customer Operations Service Master Online System), DADS (Digitally Assisted Dispatch System) and ASTRA (Automated Sorting Tracking Routing Aid System). FedEx uses COSMOS to track packages from the place of pick-up to destination. ASTRA is used to provide accurate and reliable package delivery information to customers. DADS allows couriers to determine the right route that they should use to minimize the time taken for delivery. Software companies are coming up with more solutions for courier companies to serve customers effectively. Some global courier companies in fact have their own IT department to find innovative solutions for their problems.

### **Globalization**

With most countries opening up their economy, courier industry is one industry that has gained immensely. In courier industry, about 90% of the costs are fixed costs. As the volume of business goes up, the revenues earned, directly contribute to the bottom-line of companies. Hence, courier companies can earn huge profits by expanding their business globally. They can get into strategic tie-ups with local companies in different countries to expand the network. This results in marginal or no increase in costs, but good returns. Some of the companies that have global operations are FedEx, UPS, DHL and TNT. DHL, which started with a small temporary office in the US, gradually rose to the level of national player and then to international player.

In India, courier companies have limited their expansion to countries like Bangladesh, Bhutan and Nepal. Very few players compete with the existing global giants in courier industry. Most large players operate through strategic alliances or joint ventures to limit their investment costs. For example, Blue Dart has a tie-up with DHL and Elbee has a tie-up with TNT. Hence, the global courier industry is consolidated with a few companies dominating the industry. Global courier companies offer not only the core services of moving freight from one place to another, but also higher-end services like

logistics solutions for corporate customers. Many corporate firms, which have recognized the potential of these companies, have outsourced their supply chain management operations to them. However, some countries try to protect their courier industry from global competition. For example, South African government prevents foreign players from operating in the under-1kg letter and parcel market.

### INDIAN COURIER INDUSTRY

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In India, DHL, Blue Dart, Elbee, Sky Pak and AFL are major players in the courier industry with Blue Dart in the lead position. AFL has recently withdrawn from international operations and decided to restrict its operations to freight transportation within India. Though there are more than 2000 unorganized players competing with these players at local and national level, the unorganized sector contributes only 36% of total revenues of the industry. Among the major players, Blue Dart owns three Boeing 737s. This enables the company to carry large volumes of packages and make overnight deliveries. It can deliver a package submitted at its office by a customer in the evening to any destination (except the very remote and isolated areas) in the country the next day before noon. It also has strategic alliances with various airlines and courier companies of various countries to serve international traffic. It also offers logistics and e-commerce solutions for corporate customers. Elbee has its own fleet of vehicles but not flights. It depends on Indian airlines and Jet Airway to carry its freight. Both Blue Dart and Elbee serve more than 1200 destinations in the country and have international tie-ups. Blue Dart tied up with DHL while Elbee tied up with TNT for international traffic. Elbee, which performed poorly and went into losses in 1999, is recovering slowly with the improvement in the Indian economy and commerce. Blue Dart has registered an impressive growth rate. It made profits of Rs.41 crore during the period 2003-2004 and its profitability increased by 26% from the previous year. Skypak and Gati are also picking up. With economy still improving, it remains to be seen whether the smaller players can outperform the industry leaders.

### SECTION SUMMARY

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Courier industry is characterized by high entry barriers. It needs huge investment in infrastructure and technology and there is intense competition in the industry. The market for courier industry can be divided into individual, corporate and small and medium enterprises. On the basis of type of delivery, it can also be divided into overnight delivery and same day delivery services. Players planning to enter courier industry need to analyze their own strengths and weaknesses and analyze the external environment for various threats and opportunities posed by it. They should formulate marketing strategy based on this analysis. They should design effective marketing mix by offering superior services, pricing competitively, setting up extensive distribution network and promoting their services widely using various media. They should also take special care about people training, compensation, providing tangibility and enhancing their business processes. Courier companies are using information technology to enhance the quality of their customer service and obtain competitive edge. There are only a few global courier companies like Fed Ex, DHL, UPS and TNT and there is intense competition among them with each one trying to establish its superiority. In India, presently, DHL, Blue Dart and Elbee are the major players contributing to 70% of industry's revenues.

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**Chapter 27**

**Media Services Marketing**

**(Broadcasting, Entertainment & Print  
Media Industries)**

## Broadcasting Services

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**In this section we will discuss:**

- Media Services and Broadcasting
  - Consumer Behavior in Response to Broadcasting Services
  - Market Segmentation in Broadcasting
  - Marketing Strategy of Broadcasting Firms
  - Marketing Mix for Broadcasting Services
  - Recent Trends in Broadcasting
  - Broadcasting Industry in India
- 

On 11<sup>th</sup> of September 2001, when the terror attacks took place on the twin towers of the World Trade Center in New York City, not only the people of the United States but people across the world came to hear of the event within minutes of its happening. The entire world was shocked and horrified on hearing the terrible news. People across the globe shared the grief of the families of the victims and the anger of the people of the United States against the senseless killings. It was the media services, which made it possible for millions of people across the world to know of the event and come together to share the grief of the victims' families. If it weren't for the far-reaching services of the media, which immediately beamed the news to all parts of the world, the world would not have realized that such a catastrophic event had taken place in another part of the world.

In this chapter, we shall discuss the various aspects pertaining to the marketing of a vital component of the media services – the broadcasting services. The chapter begins with an introduction to media services and the types of media. This is then followed by a discussion of the role of broadcasting services in influencing consumer behavior. The chapter then discusses about market segmentation in broadcasting, the marketing strategy of broadcasting firms and the marketing mix for broadcasting services. This is then followed with a discussion of the recent trends in broadcasting and finally, a brief look at the broadcasting industry in India.

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### **MEDIA SERVICES AND BROADCASTING**

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Media is a channel of communication which helps transmit information from the source to the recipient. There are two types of media – point-to-point media and mass media. Point-to-point media transmits information on a one-to-one basis whereas mass media transmits information from one source to a large public. Point-to-point communication technology was used in wireless telegraphy, which constituted the first evolutionary stages of radio broadcasting services. Later, however, the radio evolved into a mass media. Apart from the radio, mass media includes television, movies, newspapers, magazines and book publishing as well as the World Wide Web or the Internet.

Media can be classified into broadcasting, entertainment and print media. Broadcasting media services include the radio, television, and the Internet. In this chapter, we shall restrict the discussion only to radio and television broadcasting. Entertainment media services include audio and video services, and movies. The print media includes newspapers, magazines and book publishing services.

Broadcasting is the easiest and most inexpensive way to convey a large amount of content to a large audience. However, broadcasting does not allow for personalization or customization of the content to suit specific users.

The global radio market comprises of public and commercial radio broadcasters. The leading players in radio broadcasting include the British Broadcasting Corporation (BBC) of UK, Clear Channel Communications, Inc., Emmis Communication Corp, and Infinity Broadcasting Corporation in the US, Nippon Koso Kyokai of Japan, RTL Group SA of Luxembourg, and NRJ Group of France. However, there are very few radio broadcasters, such as the BBC's World Service, Radio Ceylon, and Vividh Bharati etc., which offer services having a global reach. Radio broadcasting includes both analog and digital radio broadcasting.

The global television market too comprises of analog and digital transmission services. The leading players on the international scene include AOL-Time Warner Inc., the Walt Disney Company, Bertelsmann, CNN, BBC, ABC, Fox Broadcasting Company, Viacom Inc., Hughes Electronics Corporation, General Electric Company, and Star Network.

### **CONSUMER BEHAVIOR IN RESPONSE TO BROADCASTING SERVICES**

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Broadcasting services such as the radio, television, and the Internet, have the ability to influence the perception and behavior of people. The programs they air and the content they provide reach a large audience and have the potential to influence their views, opinions and behavior. Broadcasting services have a particularly strong role to play in influencing the social and political opinions of people and thereby affecting their subsequent behavior.

Broadcasting services cover events and provide information to the public regarding events happening across the world. Thus, the information reaches a wide population and has the ability to influence its perception and thinking. This ability of broadcasting services can be damaging when the information being provided shows an institution, corporation, person or individual in a negative light. Taking the example of the Mad Cow Disease and the SARS virus that affected limited regions of the world, the role of broadcasting services in spreading the information and molding the behavior of the consumers across the world cannot be overlooked.

In the case of the Mad Cow Disease, even though the disease affected people in a limited region of the globe, it affected the perception, thinking and behavior of several others across the world making them give up consumption of beef and beef-products. Thus, broadcasting services influenced consumer behavior and affected the sales of beef and beef-products. It can be said that broadcasting services play a significant role in influencing the purchase, repurchase and usage of goods and services across the world.

In the case of SARS virus too, the role of the broadcasting services in spreading information about the virus cannot be ruled out. This too had both negative and positive implications. While the tourism and trade of the affected countries were hurt, people across the world understood the impact of the virus and took necessary precautions. Media helped alert masses across the world, which prevented further spread of the disease.

### **MARKET SEGMENTATION IN BROADCASTING**

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The global market for broadcasting including cable TV services was estimated to be \$236.3 billion in the year 2002. Global broadcasting services can be segmented on the basis of source of revenue and on the basis of geographic territory.

## Services Marketing

On the basis of source of revenue, global broadcasting services are segmented into TV advertising revenue services, subscription TV revenue services and license fee or public subsidy services. The greatest amount of revenue for television broadcasting comes from advertising which accounts for 52.3% of the revenues. This is followed by the revenue from subscription fees which amount to 33.3% of the revenues. The third segment comprises of license fees or public subsidy services which are offered in the domain of public broadcasting. In many countries, a flat rate nominal tax is levied per television which provides revenue to the state or national broadcasting company. The revenue from license fees or public subsidy amounts to 14.4% of the total revenue obtained by the broadcasting industry.

Based on the geographic territory or market coverage, global broadcasting services have been segmented into North-American market, European market, Asia-Pacific market, and the market comprising of the rest of the world. The North-American market accounts for 51.8% of the market share, while the European, Asia-Pacific and the rest of the world accounts for 22.6%, 21.8% and 3.8% of the total market share of global broadcasting services.

## MARKETING STRATEGY OF BROADCASTING FIRMS

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The marketing strategy of a firm determines its success or failure in its business. As part of their marketing strategy, broadcasting firms should make efforts to understand the changes in consumer needs and preferences from time to time. They also need to analyze the external environment in terms of the business environment, economic cycle, competition etc. This analysis helps the company design and market products and services that would maximize profits for the company and help it expand its business.

Broadcasting firms should try to understand consumers' preferences and requirements regarding the content of programs using audience profiling, with the help of professional research firms and established research methodologies. Audience profiling involves developing detailed audience profiles in order to understand consumer behavior in this industry. This should be followed by pre-testing of programs to ensure that they meet the expectations of the audience in terms of content, quality and convenience. Pre-testing of programs by broadcasting firms helps in risk minimization because the firm can get to know whether the topic of the program, its format and approach succeeds in having the desired impact on the audience. This helps the players avoid the risk of making large-scale investments in producing a program and make necessary changes in the program to make it suitable for the consumption of the audience.

As part of marketing research, broadcasting firms need to determine the size and composition of the audience. They can also determine the reach of a particular channel or program, the loyalty it enjoys among the audience, and other information regarding the consumer, which could help them take decisions on the allotment of advertising slots during the programs. Based on audience ratings on the popularity of a program or a channel, the broadcasting firms can accordingly allot the popular time slots to advertisers willing to pay the maximum. Exhibit 27.1 describes the marketing strategy adopted by Hallmark Channel to target Indian viewers.

While developing their marketing strategy, broadcasting firms also need to take into account competitors' operations and strategies, and design an effective strategy to counter them.



**Exhibit 27.1**

**Hallmark Channel's Marketing Strategy for India**

Hallmark Entertainment Channel, a subsidiary of Hallmark Cards, in order to become India's topmost entertainment channel, devised an aggressive marketing and programming strategy to be implemented along with an equally aggressive strategy for sales and distribution of the channel.

Using a mix of print, radio, cinema, outdoor and website media in its promotional campaigns, the company intends to increase the brand awareness of the channel among Indian viewers. With the help of its new strategy, the channel intends to target a niche network of affluent Indians with its high quality entertainment in the form of box-office hit Hollywood movies. The channel aims to meet the needs of its marketing partners and assist them in their brand-building strategies, by providing them an efficient media vehicle to air their advertisements targeted at the same market.

The focus behind the channel's new strategy is to consolidate distribution and convey its product proposition to the target audience through aggressive promotional campaigns. The strategy also aims at attracting new viewers and clearly positioning the channel in the minds of its viewers as a channel providing top quality entertaining programs with a broad appeal.

*Adapted from 'Hallmark Channel Plans New Strategies,' 15 March 2002, [www.domain-b.com](http://www.domain-b.com), <[http://www.domain-b.com/marketing/media/200203mar/20020315\\_hallmark.htm](http://www.domain-b.com/marketing/media/200203mar/20020315_hallmark.htm)>*

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**MARKETING MIX FOR BROADCASTING SERVICES**

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The marketing mix of broadcasting services comprises of the seven elements – product, price, place, promotion, people, physical evidence and process.

**Product**

Every broadcasting firm tries to gain an advantage over its competitors in terms of larger listenership or viewership. This can be achieved by producing programs that are interesting, entertaining, informative and appealing to the target customers. In order to attract larger listenership or viewership, radio and television channels include programs such as news, analysis, soaps, talk shows, sports, game shows, cartoons, call-in competition programs, award functions and reality shows. However, different channels position themselves differently and target a niche market. For example, NDTV and BBC position themselves as news channels and air programs on current affairs apart from news at regular intervals. These are targeted at the 'intellectuals' and those interested in current affairs. Similarly, there are exclusive movie channels like Star Movies, Set Max, Star Gold and HBO, targeted at movie buffs. However, some channels, especially regional channels, position themselves as wholesome entertainers and broadcast everything from movies to soaps to news and special programs on health, agriculture etc. Exhibit 27.2 describes how consumer need formed the basis for the introduction of a new variety of entertainment – cartoons – in India, leading to the immense popularity of the television channel that pioneered the effort.

**Price**

Broadcasting firms can use various methods of pricing to fix the price for various slots during the programs. The price for the slots can be determined based on audience ratings of the channel or the programs obtained by TAM surveys conducted by syndicated research agencies, or by using tools like the people meter. Using these tools, a company determines the popularity of its programs and accordingly prices the slots at the prevailing market rates. It is basically a consumer-driven (in terms of popularity) and a market-driven pricing system. The difference between the revenues and the cost of production and broadcasting determine the viability and the profitability of a broadcasting company.

### Exhibit 27.2

#### **Cartoon Network – Serving the Need of the Indian Consumer**

The appeal that cartoons have among children across the world led to channels like Cartoon Network, Nickelodeon, and Fox kids which were set up to leverage this niche market. Cartoon Network was first launched in the US in October 1992, by one of the world's leading media companies, Turner Broadcasting System (TBS). The channel offered animation programs from TBS's extensive library of more than 10,000 Warner Bros, MGM and Hanna-Barbara cartoons. Over the next few years, the channel was launched in Europe, Latin America and Asia Pacific regions. Cartoon Network not only showed famous cartoons, but also original shows developed in-house such as Mike, Lu & Og, Ed, Edd n Eddy, Johnny Bravo, The Powerpuff Girls, Cartoon Cartoons and Dexter's Laboratory. These cartoons became extremely popular across the world, making Cartoon Network one of the leading children's entertainment channels during the 1990s. In March 1998, Cartoon Network launched CartoonNetwork.com, a website offering cartoons on the net.

Cartoon Network entered India in October 1995. Prior to Cartoon Network's entry, Indian TV viewers could see cartoons only during a few time-slots on the state-owned Doordarshan and some other satellite TV channels. The channel realized that it had to build cartoon/animation viewership virtually from scratch. In addition, it had the task of building its brand equity amidst the clutter of numerous satellite TV channels. However, as there were no established players in this segment, it was not very difficult for Cartoon Network to get itself registered in the viewer's mind as a channel synonymous with cartoons. Gradually, children across the country tuned in to the channel, and Cartoon Network established itself as a major player in the Indian satellite TV market. Soon, the globally popular cartoons became household names in the country.

According to Cartoon Network sources, the success of Cartoon Network is due to its appeal to the entire family, its original programming content and its advanced programming technologies. As the pioneer in the Indian cartoon and animation market, Cartoon Network quickly gained popularity and a huge fan following.

*Source: 'Cartoon Network – The Indian Experience,' ICAFI Center for Management Research.*

## Place

The expansion of the reach of broadcasting services to places that were formerly unimaginable, has created a lot of scope for broadcasting firms to market themselves at various locations. Earlier, broadcasting destinations were limited to households and hotels. In the changed scenario, new places of distribution include railway and bus stations, airport terminals, shopping malls, trains, buses, flights, elevators, fast food centers, doctors' clinics and all such locations where they can attract the attention of a captive audience.

## Promotion

Broadcasting firms can promote themselves by using other forms of the media such as print and electronic media, apart from their own channels. For example, most channels like Set Max and NDTV advertise themselves in newspapers and magazines. Broadcasting firms may also adopt the strategy of cross-promotion wherein the promotion of one channel takes place on another channel of the same firm. Products such as greeting cards, gift items etc can also be used to promote the parent firm.

Unique promotional ideas and campaigns can help channels improve the viewership and revenues for their programs. One of the popular ways of promoting a channel is by sponsoring special award functions or events. Star Plus for example devised and

sponsored the “Star Parivar” awards for the characters in their popular soaps. This is a unique promotional campaign, and has fetched the desired benefits for the channel in terms of revenues and popularity. Another popular promotional method is of contests. Some program producers ask their viewers, some questions based on their program and reward the select winners. They sometimes tie-up with marketers of goods/services to sponsor the gifts.

### People

Broadcasting firms, both radio as well as television firms try to differentiate and market themselves on the basis of their personnel. People having a lively and cheerful voice are preferred for radio broadcasting. For example, Radio Mirchi earned fame for the peppy talk of its announcers in between and during programs. In television broadcasting, the choice of the announcer depends on the type of program that is to be aired. For example, news channels market themselves by presenting formal and well groomed presenters as the face of the channel, for example, Prannoy Roy of NDTV. Similarly, music channels like MTV, Channel V and B4U take on peppy individuals like Nikhil Chinappa, Nafisa Joseph, Cyrus Broacha and Malaika Arora as disc jockeys to present their shows.

### Physical Evidence

Broadcasting firms can differentiate and market themselves on the basis of physical evidence. In the case of television broadcasting, the picture on the television screen can serve as the physical evidence. For example, the clippings of pictures from the scene of action provide physical evidence to a news or sports channel. For other channels like movie and entertainment channels, interviews with eminent personalities can add physical evidence. The same can be said about the radio, where in interviews with famous musicians and dancers, movie stars, sport persons and political leaders add physical evidence to the broadcasting services of the channel.

### Process

Radio and television firms can market their services on the basis of the process used in broadcasting. For example, the digitization of content involves conversion of analog data to digital data in a specific format. This improves the quality of broadcasting and transmission. Broadcasting firms can quote this as their USP and offer the consumers a different experience of the service.

Technological changes have improved the production and transmission processes of broadcasting. For example, when an incident like a bomb blast or a stock-market crash takes place, the news is delivered almost immediately to the audience. Satellite technology has made it feasible to transmit even events or incidents taking place in some part of the world, to be transmitted live to different countries. Such improvements in processes have led to further development of the broadcasting industry.

## RECENT TRENDS IN BROADCASTING

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There is no industry that has remained unaffected by the globalization, demographic changes, evolving financial and organizational structures, legal procedures, and breakthroughs in technology taking place in the recent times. The broadcasting industry is not any different from the others in this aspect. In fact, it is one of those industries, which have been affected directly by these changes. Some of the recent trends observed in the broadcasting business that are likely to have an impact on the future scope of the industry are as follows:

## **Services Marketing**

### **Growth of the Internet and Online Availability of Media Services**

The rapid expansion of the Internet and the online availability of music and video content have reduced the popularity of the radio and the television. For example, in a survey conducted among Internet users, 15% of the users agreed that the Internet had replaced their listening to the radio whereas almost 45% of the users agreed that it had replaced their watching the television. It has also been estimated that by the year 2010, there will be a convergence of radio and television broadcasting services with the Internet. The analog transmission of content in radio and television industry will be completely replaced by the digital form of transmission once the convergence takes place.

### **Mergers and Consolidations**

Broadcasting companies across the world are merging and consolidating their businesses. The reason behind this spate of mergers is that companies intend to possess content as well as the means to distribute it on a global scale. They also want to take advantage of economies of scale that arise from such consolidation. An example of such consolidation is the acquisition of Time Warner broadcasting services by AOL, and Disney's acquisition of the ABC network.

### **Digitization of Content**

The digitization of content transmitted over radio and television allows large amount of data to be communicated through the air using satellite technology or using underground fiber-optic cables. Digitization of the content gives rise to crystal clear sound and picture quality. This development in technology makes it essential for radio and television stations to invest in the necessary equipment to receive, store and transmit the digitized content.

### **Expansion in Reach of Satellite Services**

The rapid expansion of satellite TV has increased the scope for installing television sets in previously unthought-of places such as shopping malls, fast food centers, doctors' clinics, railway and bus stations, airport terminals and any other place where there is scope for obtaining a captive audience. In radio broadcasting too, the rapid expansion of the private radio channels like Radio Mirchi and Radio City has led to the penetration of the radio in formerly unreachable places like shops, restaurants, etc. This has in turn led to need for greater creativity in television and radio programming.

## **BROADCASTING INDUSTRY IN INDIA**

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### **Radio**

Radio broadcasting began in India with the launch of the state-owned All India Radio (AIR) in 1952. Since then All India Radio has expanded its services to cover almost 98% of the country's population. In terms of area coverage, AIR now covers almost 95% of the country. Based on the frequency of the radio stations, the radio industry in India has been segmented into Short Wave (SW), Medium Wave (MW), and Frequency Module (FM) service.

Despite its vast reach, AIR began to rapidly lose its audience after the television was launched in India. Another factor that contributed to the dwindling popularity of the radio was the poor content of the programs aired on it. In order to give a boost to the radio industry, in 2001, the government of India issued licenses to 10 private

companies to launch FM service in various cities. Of these, only two companies, Music Broadcast India Private Limited and Entertainment Network, commenced operations. Music Broadcast India Private Limited launched its FM service in Bangalore and Lucknow under the brand name, Radio City. The service has since then been extended to other cities such as Mumbai, Pune, Ahmedabad, Chennai, Delhi, Kolkata, and Indore. In Mumbai and Pune, the service operates under the brand name – Radio Mirchi. The issue of private licenses by the government succeeded in expanding the penetration and reach of the radio. In Mumbai alone, there were 5 radio broadcasters operating by the end of May 2002. These included Radio Mirchi, Radio City, Go 92.5, Red and Win 94.6.

### Television

In India, the state-owned Doordarshan was the only television broadcasting company ever since it was launched in 1959. It was only in 1984, that cable television made its foray in India with CNN's broadcast of the Gulf War. Since then, the Indian television industry has witnessed a plethora of television channels trying to attract the attention of the Indian viewers. Currently, the Indian viewers have a wide variety of television channels to choose from, such as Doordarshan, Star TV, Sony, Zee TV, MTV, BBC, Discovery, HBO, Hallmark, ESPN, CNBC, and various regional channels. In addition to these television channels, there are several cable operators currently operating in the country. Some of these include Citi Cable, InCable, Hathway, etc.

The proposed Conditional Access System has brought about great turmoil in the Indian cable and television industry with consumers protesting against its implementation. Although CAS was to be implemented in all cities, it was successfully implemented only in Chennai. The system allows cable operators to charge a fee from the subscribers for the channels they wish to watch. There is widespread protest amongst consumers regarding the implementation of CAS as they see several flaws in it.

### SECTION SUMMARY

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Media services comprise of all those channels of communication, which help to transmit information from the source to the recipient. Media may be point-to-point media or mass media. While point-to-point media transmits information on a one-to-one basis, mass media transmits information from one source to a large audience. Media services are classified into broadcasting, entertainment and print media.

Broadcasting is the easiest and most inexpensive method of conveying a large amount of content to a large audience. Broadcasting media consists of the radio, television and the Internet. Broadcasting services have the power and the ability to influence the perception and behavior of people through the content of the programs they air. These services can be segmented on the basis of the revenue they generate and also on the basis of geographical territory or market.

The intense competition among the various service providers in the broadcasting industry has made it essential for broadcasting firms to design a marketing strategy to efficiently tap the market. This involves a need to understand consumers' needs, and an analysis of competitors' products and services, followed by developing products and services to match those offered by the competitor. Thereafter, it is also essential to efficiently market these products and services to reach the intended market segments and yield the targeted revenue.

The marketing mix of a firm is what helps it differentiate itself from its competitors. The marketing mix of broadcasting service firms consists of 7 elements - product, price, place, promotion, people, physical evidence and process.

## **Services Marketing**

Several recent trends arising as a result of globalization, demographic changes, evolving financial and organizational structures, legal procedures and breakthroughs in technology, have had their impact on the broadcasting firms, both at a global as well as national level. Some of these trends include the growth of the Internet and the online availability of media services, mergers and consolidations taking place between firms across the world, digitization of programming content and expansion in the reach of satellite services.

The broadcasting industry in India, too, has not remained unaffected by the changes taking place at the global level and is yet to evolve to reach a stage of maturity.

# Entertainment Services

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**In this section we will discuss:**

- Consumer Behavior in Response to Entertainment Services
  - Market Segmentation in Entertainment
  - Marketing Strategy for Entertainment Firms
  - Marketing Mix for Entertainment Services
  - Recent Trends in Entertainment
  - Entertainment Industry in India
- 

Entertainment services constitute a part of the media services and include entertainment through movies, leisure, music, television shows, sports, etc. Entertainment services include all those services, which help a person feel entertained and relaxed. These include the services that are involved in the production, distribution and marketing of movies, television shows, music, and animation. Also included in entertainment services are the marketing of sports events such as cricket, hockey, tennis, and football matches, competitions pertaining to indoor and outdoor games such as badminton, swimming, chess and several others. Entertainment centers, theme parks, go-karting, and bowling alleys, are more recent and upcoming means of entertainment in India.

The global entertainment industry comprises of movies, retail music sales and sports. The market value of the global movies and entertainment industry in the year 2002 was estimated to be \$144 billion. The major players in music industry include Sony Music, Warner Music, Universal Music, Bertelsmann AG and EMI Group. In entertainment through movies, the major players include Sony Pictures, Warner Bros, Disney Studios, Universal Studios and Fox Filmed Entertainment.

In this chapter, we shall confine ourselves to a discussion on the music and movie industry as representative of entertainment services. Beginning the chapter with a discussion of how entertainment services influence consumer behavior, we go on to discuss the market segmentation in the entertainment sector, followed by a brief description of the marketing strategy for entertainment firms. This will be followed by a discussion of the various elements of the marketing mix for entertainment services. We shall conclude the chapter with a discussion on the recent trends in entertainment and an overview of the entertainment industry in India.

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## MARKET SEGMENTATION IN ENTERTAINMENT

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Entertainment services can be segmented on the basis of the revenue generated and on the basis of geographic territory or market. The largest contributors of revenue in the entertainment industry include music, video rental and sales, and sports which together account for 89.5% of the total revenue. Although high in visibility, movies generate only around 10% of the revenue in the entertainment industry.

The territory-wise segmentation of the entertainment industry divides the global industry into the North-American market, European, Asia-Pacific market and markets comprising of rest of the world. In terms of value, the North-American market accounts for 49.8% of sales, the European market accounts for 33%, the Asia-Pacific market for 14% and the rest of the world accounts for 3.1% of sales.

## Services Marketing

The music industry across the globe can broadly be divided into three segments: creation, marketing and distribution. Music artists create music, which is marketed and distributed by a network of record labels, distributors, retailers, broadcasters and DJs/clubs. Labels (record companies) play an important role in all three stages by providing capital and the marketing know-how to create, promote and distribute music. Music marketing takes place through branding, community building and information dissemination. Music is sold in 'containers' like compact discs (CDs) and audio cassettes, through distribution channels. Another form of music distribution is conducting public and private music shows. A similar segmentation is also possible in the movie industry.

### **MARKETING STRATEGY FOR ENTERTAINMENT FIRMS**

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The entertainment industry is faces quite a few challenges trying to safeguard its revenues. The industry not only has to overcome the challenge of unscrupulous pirates of music and video, but also has to come up with new strategies to attract and retain customers. With the Internet becoming a convenient medium of delivery for both audio and video files, swapping of entertainment files using technologies such as Napster and MP3 technology has become a bane for the industry. Technologies like these allow free download of music files from the Internet, because of which, the music and movie industries suffer a serious setback in terms of the revenues earned. Although regulations have been framed to curb the free MP 3 download of music, it is virtually impossible for government regulations to control this free transfer of files. Thus, it has become imperative for the service providers in the entertainment industry to come up with strategies to attract consumers to their own distribution channels rather than counting on regulations to curb illegalities in entertainment business.

Advances in technology, increasing urbanization, increase in disposable income and improving standards of living of people across the world have provided an opportunity to the entertainment industry to grow in terms of volume and value. Service providers in the entertainment industry, both music as well as films, have therefore realized the importance of developing appropriate strategies to combat competition from within and outside the industry and improve their business.

In the music industry, for example, the music companies can follow the example of Hollywood movies and adopt the windowing approach to distribute music. This is somewhat similar to the skimming strategy in marketing. Distribution takes place through various windows or channels, with a new window opening as soon as the revenues from an existing window begin to diminish. In the windowing approach, the music company releases the music at strategically timed intervals using various channels of distribution. Using this approach, a music company can offer a new release or album through the traditional channel of distribution, the CD-ROMs aided by promotion of the music on radio and television. After tapping the first segment of customers comprising of those who desire to possess hot releases and willing to pay a premium price for it, the music company can then open the next window, that of online sale of music. Using this window, the company can make available selected songs or the entire album to be downloaded at a price. Once, this segment of online consumers too has been tapped, the music company can then open the next window, that of subscription services, through which online consumers can pay a monthly fee and access a selection of music. The last window would comprise of the record clubs that would cater to the consumers who are price-conscious in nature.

Joint ventures can also be formed between leading music companies and intermediary online players. For example, AOL Time Warner, Bertelsmann and EMI Group have teamed up with RealNetworks to form Music Net, while Sony Music Entertainment and Universal Music Group (a unit of Vivendi Universal) have formed the joint venture Pressplay. Both Music Net and Pressplay offer music subscription services through affiliates such as Yahoo, MSN, and AOL.



Entertainment service providers can also use the strategy of cross-promotions or cross-marketing to promote the sale of their product. In this strategy, the product produced for one form of media is marketed or promoted through another media. For example, when a new movie is launched, it is preceded by the release of its music in the form of audio cassettes and CDs. This helps to raise consumers' interest and curiosity about the movie. In Hollywood, the movie industry successfully follows the cross-promotion approach. The release of a new movie is preceded by various promotional shows on television and radio, interviews with the stars, the director, the crew, and even a film on the making of the movie. Such cross-promotion helps build excitement to a feverish pitch and helps boost sale of tickets when the film is actually launched.

### MARKETING MIX FOR ENTERTAINMENT SERVICES

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The marketing mix of entertainment services, just like other types of service, consists of seven elements – product, price, place, promotion, people, physical evidence and process.

#### Product

The product in entertainment services is in the form of music, movie, a television program, or an animation film. Entertainment service providers can try to differentiate themselves from other service providers in terms of product by offering a package that is much better than that of competitors, in terms of quality of entertainment. The movie product consists of the storyline, the casting, the music, the art, the production etc. Similarly, a music product consists of the lyrics, the orchestra, the singers' voices etc. Each of these separate features also can be used to differentiate the product and position it uniquely in the market.

The content provided by entertainment service providers has become a cause of concern for many. In the music industry, violent lyrics and explicit content in the labels of audio cassettes and CDs has become an issue of growing public concern, in both developed as well as developing countries. There is also a growing concern in society regarding the explicit sex and violence in movies and television programs. This has forced many parents to install the V-chip in their television sets to curb their children from watching such programs.

#### Price

In India, music does not form a priority item on the list of purchases of a majority of the population. Hence, pricing of music is a tricky issue for marketers of the service. Price of musical entertainment in India depends on the acquisition price of the music title, the singers involved in producing the music and the target audience. While pricing recorded music, the marketer has to keep in mind that any hike in the price would result in the demand of consumers shifting to pirated music products. Marketers of music follow a differential pricing policy in India with the prices being determined by demand, and timing of the year. For example, music pertaining to classical/devotional music has greater demand during certain time of the year such as during festivals.

The lopsided entertainment tax structure in India has led to different taxes being levied in different states for the same film. For example, while 60% was the recommended tax rate for the entire country, states such as Gujarat levy a tax as high as 100%. This leads to high ticket rates, making consumers to seek other ways of entertainment.

## **Services Marketing**

Flexible ticket pricing can be introduced in order to improve the profitability of movie producers and theater owners. As a part of flexible pricing, the ticket rates of blockbuster movies can be hiked while prices for non-hit movies can be lowered. This will allow theater owners to make profits on blockbuster movies while at the same time, ensuring a guaranteed audience even for movies that fail to succeed at the box-office. In addition, flexible ticket pricing can help theater owners to generate adequate funds to upgrade their existing facilities.

## **Place**

Service providers in the entertainment industry can try to tap new channels of distributing their product. For example, music has been traditionally been distributed through audio cassettes and CDs. Music companies can use new channels of distribution such as the windowing approach, which has already been discussed earlier.

Even moviemakers in India adopt this marketing strategy of using multiple channels. For example, when a movie is first launched, it is first released in all A-grade centers in the country/region because the number of prints is limited. Once the collections start coming down, the movie is released in B-grade centers in rural and remote areas. Once this channel is closed, the CDs/DVDs of the movie are released into the open market. When the sales of these also slow down, combinations of movies are released on DVDs.

A growing Indian population in different parts of the world and a young bunch of creative movie and music makers has created a market for Indian entertainment services abroad. Indian music and movie industry has thus found more avenues to distribute its products in the international market.

## **Promotion**

Movies have been traditionally been promoted through trailers, advertising in print, radio and television and through publicity. Filmmakers can adopt new forms of promotion such as cross-promotions, product placements and film-based merchandising to increase their revenues. Cross promotions have already been discussed earlier in the chapter.

Film based merchandising involves selling of articles that are in some way or another, related to the movie's characters, events and places. They include a wide range of products such as posters, clothing, stationery, toys and other gift articles. This results in additional revenues for the marketers of these goods and also helps in promoting the movie further. Such souvenirs enhance the service experience of the consumer.

Films and music can also be used to promote other products, using product placements. Product placement is a marketing strategy adopted to showcase brands through the medium of entertainment. Placing prominent brands of products at crucial junctures of the entertainment makes the viewer take notice of the brand, which may result in its purchase. In the Indian film industry too, product placement has been done in movies like 'Taal (Coca-Cola),' and 'Dilwale Dulhania Le Jayenge (Stroh's Beer)'.

Previews and reviews of movies and music albums in newspapers, magazines and on the internet also have an impact on the success of a movie or music album in the market. Internet and telecom services are also being used to promote the entertainment industry. Ring tone offers by cellular service providers and contests and ads on the internet contribute to the promotion of a music album or a movie.

### People

People form a crucial element in the marketing mix of entertainment services as this industry is a creativity based industry like advertising. In the movie industry, people include the actors/performers, the director, the singers, the scriptwriter, the lyricist, the music director, the cameramen and all other technicians involved in the making of the film. 'People' of course includes the audience as the service cannot be successfully delivered without them. Successful directors like Subhash Ghai, Mani Rathnam, and Karan Johar, for example, have the ability to catch the pulse of the audience and accordingly come up with movies that suit their taste. In the music industry, people comprise of the on-stage performers like Yanni, Ricky Martin, Bruce Springsteen, Britney Spears, Suneeta Rao, Shweta Shetty, etc., the orchestra, arrangers like Zubin Mehta, and the technical crew involved in producing the show/album. The success of an album depends on the people involved in its making. There are also instances of performers or the artistes involving in bizarre or outrageous behavior on-stage as well as off-stage in order to create a sensation and thereby promote the sale of their albums. Exhibit 27.3 gives some examples of bizarre and outrageous behavior by noted celebrities in the world of entertainment.

### Physical Evidence

The physical evidence in entertainment services plays a significant role in its marketing. For example, in the music industry, the physical evidence is in the form of audio cassettes, and labels and online catalogues of audio cassettes and CDs. By making the labels and online catalogues more attractive, music companies can attract more number of consumers to purchase the music. In the movie industry, physical evidence is in the form of posters, advertisements, hoardings, music cassettes, etc. Moviemakers can attract people to view their film by ensuring that the posters, advertisements and hoardings of their film capture the attention of the people.

### Process

The process in entertainment services begins right from idea development stage to production, distribution, promotion and marketing of the product. Developing the right storyline, picking up the right star cast, director, music director and other technicians, choosing an appropriate location/setting, making the movie, editing it, planning the distribution and releasing it, all constitute the process. Technological advances have improved the various elements involved in creating and distributing an entertainment product.

## RECENT TRENDS IN ENTERTAINMENT

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The following are the recent trends in the entertainment industry and are likely to have an impact on the services provided by entertainment firms.

- **Online Availability of Entertainment Content:** Increasing access to the Internet by consumers across the world and the online availability of entertainment content in the form of free-to-download music and video files has reduced the demand for entertainment services. Further, with major players such as Microsoft and America on Line (AOL) providing entertainment using convergence technology, it has led to further decrease in the demand for entertainment services.

**Exhibit 27.3**

**In the World of Entertainment, does being Bizarre Attract More Sales?**

In the world of entertainment, where every artiste has more or less the same skills as the other artiste, attracting a large fan following requires the artiste to have something additional to skill or talent. Good looks, luck or charisma may be that something extra, but not enough to attract a large fan following. Hence, performers, artistes or entertainers having similar skill/talent levels try to distinguish themselves from their peers by involving in bizarre or outrageous behavior or sporting an unusual appearance.

Creating a sensation is known to attract more sales in the entertainment industry. There have been many instances of entertainers provoking public outrage by their conduct, whether it is an act, a statement or an artistic expression. Entertainers are known for their propensity to be bizarre and outrageous in their behavior, both on-stage and off-stage.

Some of the well-known performers known for their outrageous behavior are Michael Jackson, Madonna, Prince and Boy George. Michael Jackson is known for his awkward and vulgar body movements. There have been many instances when he had to delete outrageous scenes from his music albums before their release in the market in order to avoid hurting public sentiments. Madonna, the famous pop singer/actress is yet another controversial entertainer. She is known to have published inappropriate photographs of herself in a book that was considered to be a forerunner to a movie in which she had acted. Prince, another popular pop singer, made news when he changed his name on his thirty-sixth birthday to something that was just impossible to pronounce. The new name was a combination of male and female sex symbols. Boy George, another rock star, was known for his weird style of dressing. He would always dress in women's costumes, both on-stage as well as off-stage.

Celebrities give a lot of importance to their public image. Although it is possible for them to attract attention by being philanthropic or involving in other good deeds of charity, it does not help distinguish one celebrity artiste from the other, since everyone happens to be contributing to charity. This could be one reason why some artistes choose to be outrageous and bizarre in their behavior. However, bizarreness or outrageous behavior can be a double-edged sword. Although initially it might attract the public's attention and increase sales, excessive overload of it tends to put off the consumer, leading to a loss of sales.

*Adapted from Paul Sergius Koku, 'On Bizarreness in the Entertainment Industry,' Journal of Services Marketing, 1995, Volume 9, Issue 4, p 19.*

- **Piracy of Content:** Entertainment service firms are facing a threat because of the onslaught of pirated content in music and video cassettes, DVDs and CDs. The illegal copying of copyrighted material and file swapping of entertainment content by unauthorized firms has resulted in staggering losses of over \$1 billion a year for the music and movie companies. One of the approaches adopted by music companies was to offer downloading of songs for a nominal charge. These songs could be copied or played on portable music players such as Apple's i-Tunes Exhibit 27.4 describes the evolution of the concept of Apple i- Tunes.
- **Mergers and Consolidation of Entertainment Companies:** Mergers between entertainment companies provide them with economies of scale. Entertainment companies across the world are merging and consolidating their businesses with the purpose of owning the content as well as the means to effectively deliver it to the targeted audience and achieve the targeted profits.
- **Evolving Forms of Media, Digitization and Other Media Technologies:** Entertainment is constantly evolving in new forms like computer-related appliance devices such as game consoles, play stations, etc. and these vie for the consumer's attention along with the standard forms of entertainment such as music, movies, etc. Hence, entertainment service providers have a greater need to repackaging their services to attract the consumer.

**Exhibit 27.4**

**Apple i-Tunes - A Legal Way to Download Music**

In June 2003, iTunes Music Store (iTunes), Apple Computer Inc.'s Internet-based music selling initiative, emerged as a legal alternative to downloading music using file swapping services like Kazaa, Morpheus and the erstwhile Napster. In the very first month of its launch, it sold more than three million songs. This figure, far beyond even the company's expectations, took the music retailing industry by surprise. All those who had predicted doom for iTunes at the time of its launch, watched in disbelief as Apple reported total sales of five million songs by the end of the second month. The music store was reportedly attracting a growing audience day by day owing to its simplicity and ease of use. Using iTunes, songs could be downloaded at a nominal charge for each song, and copied to or played on portable music players such as Apple's iPod. Apart from being simple to use, iTunes reportedly offered good quality music downloads as compared to the other music download services available on the Internet. At a time when everyone in the music industry was searching for a way to overcome the losses due to music piracy, Apple led the way with its iTunes Music Store.

*Source: 'Apple's iTunes: Changing the Face of Online Music Retailing,' ICFAI center for Management Research.*

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**ENTERTAINMENT INDUSTRY IN INDIA**

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Music and movies comprise a major part of the entertainment industry in India. In addition to these, there are also other forms of entertainment such as computer and video game parlors, entertainment parks, multiplexes, family entertainment centers, etc.

**Music**

The Indian music industry was dominated by Gramophone Company of India Ltd. (GCI) and Polydor (later named Music India Ltd – MIL), which sold only expensive LP records through a few record shops. Cassettes were not very popular initially since very few homes had a cassette player. Later, with the increasing popularity of audio cassettes, many companies entered the industry, giving rise to intense competition in this sector. These included Super Cassettes Industries, Venus, Tips Industries, Magnasound, Times Music, etc.

The Indian music industry has long been considered to be synonymous with Indian film music. However, due to the promotional effects of satellite music television and the entry of global music companies in the 1990s, non-film genres, such as international music, Indi-pop and regional music have also become popular. Traditional music such as classical and devotional music and ghazals, have also received renewed attention. The rapid increase in the number of corporate music retailing outlets, the increasing penetration of Compact Discs (CDs), the emergence of distribution channels such as the Internet and the ever-growing base of 60 million cassette players and four million CD players have facilitated the trend.

Music is an extremely important feature of Indian films. While a good soundtrack is vital for getting a movie pre-release publicity, a good movie aids the music sales after the release. Hindi film music accounts for 70% of the film industry's revenues. T-Series is the overall market leader, followed by Saregama (formerly Gramophone Company of India Ltd. (GCI), belonging to the R P Goenka group of companies, which owned the popular His Master's Voice (HMV) brand), which has the largest number of titles from old Hindi songs. The other players, in order of their position in the market are: Tips, Sony, Universal, Venus, BMG Crescendo, Magnasound and Times Music. In addition, there are many small players, both at the regional and

## Services Marketing

national level. The popularity of film music has paved the way for the music companies to have a booming business in the category of remixes of old Hindi film songs, Indi-pop, etc.

### Movies

The Indian film industry is the largest in the world in terms of number of movies produced each year. Around 800 movies are produced each year in India with Hindi movies comprising a large chunk of them. The other prominent languages in which movies are produced in India include Telugu, Tamil, Malayalam, Bengali, and Assamese. In all, in India alone, movies are produced in 52 different languages. As per a study conducted in March 2000 by FICCI-Arthur Andersen, the Indian film industry is expected to grow from Rs 84 billion in 2000 to Rs 340 billion by 2005. The Indian film industry employs more than 6 million people. The leading production houses in the Indian film industry include Balaji Telefilms, Rajshri Productions, Padmalaya Telefilms, Mukta Arts, etc.

The Indian film industry was not granted an industry status until 1997. It was only after being granted an industry status that the Indian moviemakers were able to obtain funds from financial institutions. Movie making in Hollywood, on the other hand, is a full-fledged industry where companies occur in the form of giant conglomerates, are listed on the stock exchange, are regulated by market regulations and are accountable to their shareholders.

The major concerns of the Indian film industry pertain to piracy of movies and the unethical practices of cable operators who beam pirated versions of brand new movies to their subscribers even before these are released into the market. This has led to great losses of revenue to the movie producing companies. Yet another concern is the dubbing of Hollywood blockbusters in Indian languages. When James Cameron's *Titanic* was dubbed in Hindi and released in India, it earned revenues of more than \$2 million on its dubbed version alone. Indian filmmakers have come to realize the challenge they now face from films produced in Hollywood, both in their original as well as dubbed versions.

Indian cinema is now waking up to the challenge of being globally popular. In order to increase the revenue that is possible to be earned from films, Indian filmmakers have begun to focus on technology to improve production quality and promotional strategies like film-based merchandising. Indian moviemakers are also targeting the overseas market like never before.

### SECTION SUMMARY

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Entertainment services include all those services that help a person feel entertained and relaxed. The various forms of entertainment include music, movies, sports, animation, television shows, and the more modern forms such as go-karting, bowling alleys, theme parks and family entertainment centers. Music and movies have a worldwide appeal and provide the service providers with a lot of scope for growing their business. An understanding of how entertainment services influence consumer behavior is essential for marketers of entertainment services to promote their services.

The global music and movie industry has been segmented on the basis of revenue generated and geographic territory or location of markets. The free MP3 downloads and piracy of content has been the concern of music and movie producers across the world. In order to counter the threat from these sources, entertainment service providers have to devise strategies that will help them counter the threats they face as

well enhance the growth of their business. After having developed a marketing strategy, entertainment service firms must exploit all the seven marketing mix elements (product, price, place, promotion, people, physical evidence and process) to differentiate themselves from their competitors and attract new consumers to their service.

The recent trends taking place in the global entertainment sector include the online availability of entertainment content, piracy or unauthorized duplication of content, mergers and consolidation taking place among entertainment companies, both at a global as well as domestic level, and the evolving forms of media, digitization and other media technologies. These trends in entertainment services make it crucial for entertainment service providers to develop new strategies to take advantage of these trends and counter threats, if any.

Compared to the entertainment industry in other parts of the world, especially that in the USA, the entertainment industry is relatively fragmented and disorganized and makes it necessary for the Indian companies in the industry to adopt an entirely new business model in order to achieve growth in the industry.

## Print Media

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### In this section we will discuss

- Characteristics of Print Industry
  - Marketing Segmentation
  - Marketing Strategy
  - Marketing Mix
  - Recent Trends
  - Print Industry In India
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The Print media is a very powerful source of influencing people. It gives freedom to people to express their individual views and enables them to know about the important events happening at the regional, national and international levels without moving from their places. In Europe, the press contributed to the demolition of feudalism by creating awareness among people about the advantages of democracy. The print industry is the only industry in India that was never been owned by the government.

The print media includes newspapers, magazines and books published by publishing companies. Let us limit our discussion to newspapers and magazines as we are discussing services marketing. Published books like novels are more tangible and are not perishable. They have more characteristics of goods than of services. So, let us exclude them from our discussion.

To offer knowledge, information and entertainment to readers and to cater to their different requirements, players in the print media spend considerable time, effort and resources. However, they charge only nominal prices from readers, especially when it comes to newspapers. Print media recovers a large part of its expenses by charging premium prices from companies that seek to publish their advertisements in newspapers and magazines. This is how publishers price their services well below the costs incurred on printing and distribution. In this chapter, we will discuss the characteristics, marketing segmentation, marketing strategies, marketing mix and recent trends in the print media industry. We will also discuss the changes in the print industry in India.

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### CHARACTERISTICS OF PRINT INDUSTRY

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The print industry covers newspapers, magazines, journals, novels etc. The industry requires moderate investment for setting up a printing press, employing people, training and compensating them, and managing distribution. The entry and exit barriers are thus low. However, the industry is knowledge intensive and there is cutthroat competition in the industry, with players striving to capture or increase market share. A new player will not be able to gain a foothold in the industry unless he has something significantly different from existing players to offer target customers.

There is increasing awareness among customers about the need for knowledge and information. The emphasis on literacy and education in developing countries has increased the literacy rates and improved education standards. This has resulted in an increased thirst for knowledge, leading to an increased demand for the services of the print industry. On the other hand, education has created a more intelligent and discerning reader. Therefore, a player in the print industry cannot afford to supply a product of substandard quality to the customer.



## MARKETING SEGMENTATION

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The market for the print industry can be divided into segments based on geography, demographics and psychographics.

**Geography:** Some newspapers and magazines cover local and regional news in detail and serve customers within that region. Some cover national news and serve customers of the entire country while some cover international news and thus serve customers across the world. Even magazines cater to the needs and tastes of readers in different parts of the country or world.

**Demographics:** Based on demographics, segmentation can be done as follows:

*Based on age:* Some print services target their customers based on age. For example, comics, short story books and novels for children are targeted at those in the age-group of 4-12. In India, comic books like Champak and Amar Chitra Katha published in Hindi and English, cater to children. Some books serve the reading interests of teenagers in the age group of 15-19.

*Based on gender:* Some books and magazines target men and women separately. For example, Femina and Woman's Era cater to the Indian woman's reading tastes, while Gladrag is targeted at men. 'FHM' is a popular magazine for men in UK and the US.

*Based on occupation:* Some books, magazines and journals target readers based on their occupation. For example, magazines like Business Week, Fortune and Forbes target business professionals, while Data Quest and Chip target IT professionals.

*Based on language:* Some newspapers, books and magazines target readers by their language. For example, Malayala Manorama is published in Malayalam, while Swati, a popular Telugu magazine targets Telugu readers.

**Psychographics:** Some magazines target people based on their lifestyle and personality. For example, while Filmfare is for movie-buffs, Sportstar is targeted at readers interested in the world of sports. Time N style is a lifestyle magazine targeting upper class readers.

## MARKETING STRATEGY

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In the print industry, players need to formulate their marketing strategy considering various factors like their own strengths and weaknesses and those of the competitors, opportunities and threats posed by the external environment, etc. They also need to consider the business cycle, the economic environment, political and social environment and the changing reading habits of customers.

As there is intense competition in the print industry, entrepreneurs planning to enter the industry should consider targeting niche markets rather than general market. In most market segments, there are already well-established players serving customers. Players often conduct contests, and distribute coupons and gifts to customers in a bid to capture a larger market share. In some cases, there are also price wars between players. Therefore, a new player who wants to gain a foothold in the market needs to differentiate his offering from others and explain its uniqueness to the target readers. The success of a player depends on his ability to select the right segment and position itself for it. The player should be highly conscious of quality and changes in customer tastes and preferences.

**Opportunities:** In India, the market for the print industry is in the growth phase. Because of growing awareness among people and increasing literacy rates and education standards, the demand for various newspapers, books and magazines is on the rise. An increase in the number of nuclear families and working women has also contributed to the growth of the print industry. In many families, wives and husbands

## Services Marketing

work in different fields and have different interests. For example, the husband may be in the software industry while the wife may be in the hospitality industry. As they have different interests, each may buy a different journal to keep abreast of developments in their respective areas. The number of people doing postgraduate courses and professional courses, and pursuing doctorate courses has also increased. They tend to read more, when compared to school/college dropouts. The increase in the number of offices, educational institutions and libraries also provides more opportunities for the print industry. Hence, it can be said that the print industry offers high growth potential.

**Threats:** The major threats faced by players in the print industry are from the electronic entertainment media, like TV, Internet, video games, and online print journals. A large number of households, especially in educated and well-to-do families, have a cable connection. Many channels promise 24-hour entertainment or news and engage viewers continuously. This has reduced the time spent by customers on books and journals. The general complaint across different countries is that the reading habits of children are being affected badly due to TV and video. Youth also spend more time watching movies, enjoying themselves at discotheques, or surfing the Internet. For all these reasons, players in print media have to strive hard to attract people.

Many players in the print media are offering more of local news to customize content for the consumption of readers in that area. In the future, they will need to increase the level of customization to serve specific requirements of individual customers. In addition, they have to encourage innovation and creativity in their content and strive to offer superior quality content that clearly differentiates them from other media. They need to formulate an appropriate marketing mix and implement it to attract and retain customers.

## MARKETING MIX

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In the print industry, proper planning and implementation of the marketing mix is crucial because this helps players largely in differentiating themselves from competitors and gaining competitive advantage. Judicial use of the marketing mix elements might also help stave off the challenge from other media of information and entertainment. Let us discuss the various elements of marketing mix in detail.

### Product

Types of product in the print media include newspaper, magazines, tabloids, journals, novels, autobiographies, biographies, textbooks and reference books for students, dictionaries, encyclopedias etc. Of all these products, newspapers and magazines are highly perishable. While a newspaper lasts for a day, a magazine lasts for a week or two. Journals have a longer life of six months to one year. Novels and books enjoy quite a long life when compared to these.

People in the business of publishing newspapers and magazines are constantly on their toes. Newspapers have to cover all the important news and events that occurred the previous day. If the news is one day old, it becomes stale. Magazines have to update customers with all the news of the week relevant to the target group. Journals generally target professionals and cover developments in their area of interest. The quality of a newspaper or magazine or book is measured by the quality of content and the way it is presented. Editors need to ensure that the content is error-free, flows smoothly and provides for interesting reading.

### Place

The head office, printing press and branch offices should be located at strategic places. Newspaper publishers particularly should have their employees and resources at important places to capture information about events as they occur. For example, if a national political party is conducting a meeting or the stock market is experiencing an extreme slump, newspapers should have their journalists and photographers at the place of action to gather information and present it to readers.

The distribution network plays a very important role in the success of a publisher. In order to distribute the magazine or newspaper before its time period lapses, publishers should have distributing centers at all important places. For example, national newspapers like The Hindu and Times of India have distribution centers at various cities and towns across India. Newspapers, apart from the subscription route, are distributed through small vendors. A newspaper can be bought at a traffic signal, from a pan shop, or from a roadside hawker. Their wide and easy availability determine their sales. For example, a customer who normally reads The Hindu may not get it on the railway platform. Therefore, he settles for The Times of India or the Indian Express.

Even though large bookstores and lifestyle shops carry most national magazines, availability of national magazines like India Today and The Week in small bookshops and pan shops ensures greater revenues for the publisher. Apart from households, the other modes of distribution for newspapers, magazines and journals are libraries, educational institutions and corporate offices.

### Price

Publishers determine the price of the product based on costs of printing, distribution and, administration, number of copies circulated and revenue from other sources like advertising. For example, in India, an average newspaper is priced at around Rs 3. However, in Andhra Pradesh, Times of India offers its paper at Rs.1.50 to capture the market from Deccan Chronicle, the most popular English daily in the state. Newspapers are made available at this price so that they gain large readership. Increased readership further helps them attract organizations to buy advertising space in their papers. This additional revenue allows the newspapers to price their products low. The larger the reach of their papers and magazines, the higher will be the revenues of publishers from advertising space.

Publishers of magazines price their offerings depending on the content and the target customer. Some fashion and lifestyle magazines and professional magazines target a niche segment and charge a premium price from them. For example, Cosmopolitan, a popular lifestyle monthly, is priced at Rs.50, while Chip Special, a bimonthly that comes with an attached CD, is priced at Rs.200.

### Promotion

Publishers use different methods of promotion to market their services. For example, magazine publishers offer discounts to people who subscribe for their magazine for a year or more. They also offer gifts to loyal customers. 'Business World' offered a free CD containing famous songs or topics of interest along with the magazine every month, during its promotional campaign for subscription. Such offers encourage people to opt for long-term subscription.

Newspapers and magazines displayed on stands also help publishers promote their products. Newspapers carry catchy headlines in big fonts to arouse interest among prospective readers. Magazines and books carry attractive pictures and cover stories. They also conduct contests and give away prizes for winners periodically to increase

## Services Marketing

circulation. Times of India, for example, frequently runs such contests or schemes. Publishing companies also sponsor events like beauty contests, musical shows etc. to enhance the visibility of their brand. Filmfare, a popular film magazine, conducts an annual Filmfare function to give awards to successful people in the film industry. Marketing managers frequently visit big clients like universities that subscribe for say, 100 copies, and maintain good relations with them. Some publishers distribute posters and large display stands to shops to promote their magazines. Marketing managers also need to keep the advertisers in their magazines/newspapers in good spirits by maintaining a relationship with them. Companies, which publish more than one newspaper or magazine, use each newspaper/magazine to promote others. For example, Times of India ran a combined promotional campaign along with Economic Times, where both together were given to subscribers for the price of one.

## People

People are a source of competitive advantage in the print media industry. . People include employees of the publishing company and readers. Organizations need to select skilled and talented people as writers, sub-editors and editors. Those selected should be trained according to their requirements before being put on the job. Standards of quality should be established and communicated to all the people. The right organizational culture and work environment can attract and retain competitive people.

Freedom to be creative, bold and independent is what most professionals in this industry desire. The day they have it, compensation becomes a secondary factor for them. Well-captured and well-written content attracts more customers and the organization will benefit from it. However, it also has the additional benefit of satisfying the content provider, which helps in motivating and retaining him. Freelancers also work for the print media. They cover special news, write articles on topics of interest and send them to publishers. They should be paid fairly and equitably and their efforts appreciated, to encourage them to contribute further.

Apart from employees of publishing houses, organizations in the print industry also have to manage the performance of distributors. Distributors should be given incentives to increase circulation. Customer surveys should be conducted regularly to find out whether a distributor is working efficiently or not. For example, Eenadu, a popular Telugu daily, expects its distributors to deliver the newspaper to customers before 7 a.m., and takes customer feedback on the same. Customer feedback can also be taken to understand requirements on content and quality of the newspaper, which can help the publisher deliver better service.

## Process

Publishing and distribution are two important functions in the print media. Reporters from different cities, towns and villages visit various places to collect news and send information to the regional/head office. Employees here make the necessary changes in the content and sub-editors check them once again before all the news items are finally put together. Any gaps and spaces are taken care of, and the final newspaper is printed. A preview of the entire newspaper is also checked by the editor or sub-editors. It is also ensured that different editions from different regional offices carry the same news and have similar content.

Once newspapers are printed, they have to be distributed to households, retail outlets, educational institutions, libraries and organizations. Generally, print managers determine the number of copies to be published each day, depending on the demand trends. For example, more copies are circulated on the day when government announces the annual budget or when an interesting event happens. On such days, the

number of copies published is increased to meet market demand. The copies are immediately dispatched to different distribution centers located at various places in the country/state. The distribution centers then deliver the product to individual households, organizations, small retail outlets like bookshops etc.

All the activities discussed above have to be repeated every day. This contributes to the complexity of the print media industry. Any flaw at any point can disturb the entire process. Hence, accuracy, speed and time consciousness are unstated rules in the print media industry.

### Physical Evidence

In the print industry, the quality of paper used for printing should be good. The content should be free of errors. Wherever possible, relevant pictures should be presented along with news coverage. All these factors provide physical evidence to the customer.

If a customer writes a letter criticizing an article published in the newspaper or magazine, it should be published in the column "Letters to the Editor," along with letters appreciating the articles. This assures customers that their views and opinions are valued by the publisher; and in turn enhances their confidence and trust in the magazine/newspaper. If a newspaper/magazine publishes an article on political conditions in the country, it should not be biased towards any party. If there is bias, it will give an impression that the paper is trying to manipulate the opinions of the public and may lead to a reduction in readership. There should be honest presentation of the positive and negative points of the parties concerned.

### RECENT TRENDS

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The print media existed in the world since 16<sup>th</sup> century. But the scenario in the print media in 21<sup>st</sup> century is completely different from what it was in that period. The way publishing houses function has changed significantly with advances in technology and changes in economy. Let us discuss some of the recent trends in the print industry:

#### Technology

Advances in technology have a significant impact on organizations involved in publishing business. Until a few years back, to print something, an employee in the press had to arrange metallic letters on a board in the way they occurred on the paper. After all the letters were arranged, the board was put in the printing machine and the required number of copies printed. Because of this manual process, printing was very time consuming.

Equipment like Linotype machines, offset printing and cold typesetting machines were introduced later, which improved the speed of printing. Telegraph machines enabled publishers to obtain the latest updates on news from distant places. With the introduction of computers and Internet, the entire process of publishing has been completely transformed. Not just the news, even photos are being transmitted from the place of action to the place of publishing, allowing publishers to present international news along with pictures on the same day. Earlier, news coverage reached readers first and the pictures were published later. Color printing was also difficult in the past. Now technology is so sophisticated that a publisher has the flexibility of printing as many number of pages in color as desired.

In the past, distribution was also a big problem for publishers. Papers and magazines could not reach some areas on the same day. For example, in Andhra Pradesh, people in coastal areas could not get newspapers on the day of publishing. This is one of the

## Services Marketing

reasons that reportedly led to the establishment of the Eenadu daily by Ramoji Rao. The Hindu, as it was published in Chennai, reached other parts of India the next day. Now, with the help of advanced technology and improved distribution, every newspaper reaches its readers across the country on the morning of publishing. Digital printing has enabled even international papers to be received by readers in various parts of the world on the same day. One can subscribe to online editions of the paper and enjoy fresh news.

## Globalization

About one billion people read a newspaper every day across the globe. Reuters, Agence France Press and the Associated Press are three major news agencies in the global print media industry. Many news agencies in various countries like India, China, and Singapore etc. depend on these global players for covering foreign news. The Financial Times, Business Week, Wall Street Journal, Eve, Par Golf and Top Gear are some other leading players in the global print media. Some of these, like Business Week, have publishing houses in Asia. This allows faster circulation of newspapers and magazines to Asian Countries and readers get fresh news along with their fellow readers in the West.

The global print media has been highly profitable so far. For instance, Washington Post earns \$2.2 billion dollars annually in sales. However, there are reports from some groups like the Paris-based Media Association representing 18,000 newspapers that the growth of the print media is slowing down. In 2003, the sale of newspapers registered a growth rate of 5 percent, which is very low compared to growth rates in the past. The major reason for the decline in the importance of the print media is the emergence of the cheap electronic medium – Internet. In countries where ISPS offer broadband and high-speed Internet connections, people prefer to read news from online editions, which offer up-to-the minute news.

Bigger players in the print media industry try to attract online readers by setting up their own websites. Washington Post invested \$100 million on setting up its website.

## PRINT INDUSTRY IN INDIA

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In India, 22.8% of the total population read newspapers. Market surveys have revealed that Malayalam newspapers reach largest number of people compared to other papers. Regional newspapers published in Indian languages have registered significant growth rates. In 2003, the sales of newspapers in India increased by 9%, which is 5% higher than the growth rate in China, the world's biggest newspaper market.

Some powerful media houses have emerged in the Indian newspaper industry. They include the Times of India Group, The Hindu Group, Malayala Manorama Group and the Eenadu Group. These groups have established near monopoly in their respective market segments.

In June 2002, the BJP-led government allowed foreign investors to have a stake of upto 26% in Indian print media. Foreign media players are also keen to invest in the Indian print industry because of the impressive growth rate of the economy, and favorable legal and political conditions. Moreover, they stand to gain from advertisement revenues earned by the print media (Indian print media earns \$1.5 billion per year in advertisement revenues).

Some of the players in the Indian print media vehemently opposed government's decision to allow FDI flows saying that it would restrict the freedom of the country's press and pose a threat to the nation's security. However, some welcomed the move (Refer Exhibit 27.3). According to them, FDI will enable Indian print media players to

upgrade their technology, improve the quality of content and enhance their ability to fight competition. Some players have already entered into equity partnership with foreign media houses.

### SECTION SUMMARY

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The print media industry has low entry and exit barriers. However, there is intense competition for market share in the industry. Many players are well established in their respective regions and it is difficult for new players to penetrate the market. The market for print media can be segmented based on geography, demographics and psychographics. Because of increasing awareness and interest among customers to know about events across the world, the print media offers high growth potential. However, the print media is constantly under threat from the electronic media that is gradually increasing its piece of pie in media market share and revenues.

Players in print media need to encourage creativity and innovation and strive to offer superior quality content that is customized to meet customer requirements to attract and retain customers. They also need to design and implement an effective marketing mix. The changes in technology have improved the efficiency of print media houses. Many players like Reuters, Agence France Press (AFP) and Associated Press (AP) used technology and marketing strategies to emerge as global giants.

In India, the print media industry is in the growth phase. There are a few well-established players in the industry, with each player constantly trying to increase its market dominance. The decision of the Indian government to allow 26% FDI in Indian print media has received mixed response from media houses. Some players strongly opposed the move while others welcomed it.

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**Chapter 28**

**Professional Services  
Marketing**

**(IT Services, Consultancy, Healthcare,  
Advertising & Retailing Industries)**

## IT Industry

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**In this section we will discuss:**

- Evolution of IT Service
  - Market Segmentation
  - Market Strategy
  - Marketing Mix
  - IT Industry in India
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The main function of Information Technology (IT) is to serve the information needs of society and thereby contribute to the user's productivity and efficiency. Marketing IT services should aim at providing quality customer service and maximizing customer satisfaction at the lowest delivery cost.

The IT industry has gradually evolved from a product-based industry to a service-based one. It has become one of the most competitive industries in the global economy. It is an economy-dependent industry in the sense that it performs well when the economy experiences a boom and suffers when the economy is in recession. One of the important characteristics of IT industry is that it is exclusively knowledge-based and has thrived in countries with talented resources. However, the industry also needs good financial backing. Technological developments in different fields have increased the scope of IT services marketing.

The IT industry in India is one of the major contributors to the country's economy. In terms of revenue and employment generation, the industry has developed tremendously in the past decade. The intellectual capabilities of the natives, coupled with their English speaking skills, ensure that India becomes a major IT power in the world. Indian marketers of IT services have created a large clientele for their services and are contributing to the development of the global IT market. The growth of the IT industry in India has supported the birth and development of ITES (IT Enabled Services) sector in the country.

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### EVOLUTION OF IT SERVICES

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During the early 70s, when computers were still a novelty, the delivery of IT services was centered on products, i.e., installing hardware at the customer's place and then providing a range of services to users. The 80s witnessed several technological breakthroughs, resulting in a more powerful and influential role for software in the development and use of computers. The number of hardware vendors was steadily growing but the development of sophisticated software shattered the monopoly of hardware giants like IBM and ICL. The most notable of these software developers was 'Microsoft', which emerged as the largest software company in the world. In addition, the invention of satellite communication during the late 80s made it possible to access a variety of hardware or software in any corner of the world. Thus, towards the late 80s, IT came to be known as a combination of hardware, software and communications. In the 90s, the developments in IT technology acquired a new momentum and the industry started to develop special packages, depending on the nature and type of users, like banking, finance, logistics, utility sectors etc. The rapid pace of innovations in technology in the areas of telecommunications, software and related fields began to redefine the way the IT industry operated.

The stupendous growth experienced by the IT industry in the last decade led to a dramatic increase in the use of IT by both corporate and non-corporate sectors, globally as well as in India. The IT industry in India has been experiencing a double-

digit growth for the past half decade (around 21 percent during 2003). Services are expected to play a larger role in the future, as the need for 24x7 availability and reliability of IT infrastructure is becoming increasingly necessary for running businesses. More and more IT companies are being floated every day to market new technologies. Marketing of IT services is now an inseparable part of the industry, especially as a means of improving user satisfaction and promoting the use of services by current and potential users.

### MARKET SEGMENTATION

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The market segmentation of the IT industry can be done on the basis of geographic locations, turnover of the customer companies, requirements of the specific groups of the customers, categorization of industrial and non-industrial users, etc. As major portion of the IT solutions are targeted at the corporate sector, segmentation is generally corporate-centric. However, given the rapid pace of growth of the industry and the extensive use of IT in almost all walks of life, it is difficult to categorize the market into isolated and watertight segments.

The turnover of customer companies and the magnitude of their business is one of the popular bases of segmentation. Based on turnover, companies are divided into large, medium and small companies. Some services are developed exclusively for the use of large companies and some for small ones. For example, SAP AG, an ERP solution provider, targets companies that are in the list of Fortune 500 companies; whereas Evoluus, another ERP solution provider, concentrates on the medium and small companies. Turnover is taken as the basis because the requirements of the company depend on the size of the company.

Segmentation could also be on the basis of areas of operation: domestic and exports market. That is, it is determined whether the services are targeted at the local market or are earmarked for export to foreign customers. For example, during 2002-03, the earning capacity of the Indian software and services market was estimated to be around US\$ 12 billion comprising exports of US\$ 9.5 billion and domestic revenues (excluding IT training) of US\$ 2.5 billion.

Sometimes segmentation is also industry-based because each industry has special requirements. Solutions are developed to cater to such special needs. For example, Oracle Corporation developed solutions to meet the exclusive needs of financial services industry. These specific IT services can be marketed by concentrating on the relevant segment.

### MARKET STRATEGY

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A unique feature of IT is that it is both a product and a service and therefore, the marketing principles and practices do not conform to the conventional methods adopted for marketing other products or services.

While planning the marketing strategy of IT services, the strengths and weaknesses of the player and the opportunities and threats to the industry are to be kept in mind. For example, the well-qualified, English speaking youth is considered the greatest strength of the Indian IT industry. This opens the gateways to marketing of our IT services to different countries in the world. There is a large business opportunity in English-speaking countries across the world. The Indian IT industry also has many opportunities available for growth, in the form of skilled human resources, government support and low costs of operations, which can be availed of to create new markets and expand the business. The strategy to expand the market for IT services may involve providing a wider range of services to existing customers by entering a hitherto unexploited market, or by creating a new demand that did not exist earlier. The key to success depends on how effectively these strategies are implemented.

### MARKETING MIX

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Keeping in view the rapid pace of development in technology and the short shelf life of the products, fast and continuous product/service development, adoption of the right processes, competitive pricing of products/services and promotion of these, along with recruiting and training the right people, are very important in the IT industry. Keeping in view the peculiarities of the industry, the pricing and process mechanisms differ from other services. However, place is not a constraint for providing services, especially with the latest developments in communication technology. At the same time, providing physical evidence to the customer is very difficult. The brand name and existing products and clients can be used to assure the customer and reduce the perceived risk.

### Product

The services provided by the IT industry are exceptionally large in range, and varied. However, they may be broadly divided into the following categories:

#### Application software

This is the major chunk of the market covering nearly 30 percent of the IT industry. It merges IT applications with the requirements of specific sector segments. The service provider takes the expertise of a sector and designs a system especially for that particular sector. This has been most useful in banking, financial services, transportation etc.

#### Consultancy services

IT being a specialized industry, understanding IT requirements and the sophisticated technology involved may prove to be a complex task for the user. Consultancy services help the customer evaluate their needs, understand the technology and choose a suitable solution to suit their needs. TCS and CMC are some of the leading IT consultants in the country.

#### ITES

ITES involves getting the work done or providing a service at the most cost-effective place. Legal and medical transcription work, data processing, web content creation, database management etc. are the best examples in this category (Refer to Exhibit 28.1 for the scope of ITES sector in India).

#### Maintenance services

Maintenance service includes providing services for maintaining the existing hardware and software of the client. This service can be compared with the after sales services provided in case of sale of goods. This lets users concentrate on their regular business and leave the maintenance of their hardware and updating of software to experts.

#### Training services

IT being one of the most dynamic industries, training has become an integral part of the industry. Training is necessary not only at the entry level but also for constant updating of skills as and when new technologies are invented. Languages and systems that are in vogue one day, become outdated the next day, paving the way for new developments. NIIT and Aptech are globally renowned for providing training services.

**Exhibit 28.1**

**Scope of ITES Industry in India**

The type of services under the ITES industry in India include

- Call center
- Customer service
- Data entry
- Financial accounting
- Content development
- Consultancy and management

According to NASSCOM:

"Today India surpasses all other competitors in terms of employment, number of companies sourcing ITES and the spectrum of verticals and services lines they offer. The IT Enabled Services sector in India has steadily increased its share in the overall IT software and services industry, from a low of 6.5% in 1998-99 to almost 20% in 2001-02. The Indian ITES Industry is also expected to account for 37% of the total IT software and Services export market in India by 2008."

In the future, the following areas are expected to be the core areas for ITES:

Banking and insurance

Telecom

Retailing

Utilities

Automotive

Computer and pharmaceuticals

*Adapted from Nasscom-McKinsey report 2002.*

**Multimedia**

This sector of business involves providing and presenting IT solutions using multimedia, that is, information can be provided in more than one format, such as text, audio, video, graphics and images. This is one of the fastest growing areas of the industry. Pentafour is a leading service provider in this area.

**E-commerce**

E-commerce, as the name suggests, is web-based marketing and offers other web-based solutions. It facilitates conducting business through the electronic medium. It helps to improve margins by saving on costs related to a paper-based business model. It also speeds up business transactions and results in better efficiency and timesaving.

**Place**

A unique feature of IT is that it does not suffer from the constraints of place, like other services. Delivery of the services can be either on-site or off-site. Software services can be produced or developed anywhere in the world and delivered to the client real time, without any possible distortions. However, in case of off-site development of software, the customer is required to have the necessary infrastructure in terms of hardware and software back-up to avail of the services at his workplace.

## **Services Marketing**

### **Price**

Different models are used to determine the prices of software services. The most popular among them are the Line of Code model where the price depends upon the number of lines written in a program and the Function Point model where price is based on the number of inputs and outputs. However, these methods are used only to determine the basic/primary cost of the service. In addition to this, travel and conveyance, taxes, documentation, legal charges, consultancy fees, professional charges, royalties etc. are also taken into consideration to determine the final price. Annual maintenance services are charged on a different basis depending on the annual maintenance contract.

### **Promotion**

Promotion should stimulate demand by moving the product and services towards customers. The means of promotion most commonly adopted by the IT industry is media based advertising. For example, TCS, Oracle, Microsoft and NIIT use print media to communicate with customers while IBM and Microsoft use the television extensively to promote their services. Advertising through hoardings displayed at public places has also become popular, especially in commercial cities and business centers. Web-based promotion is also quite common in the IT industry.

In addition to media-based advertising, conducting seminars and workshops to educate and train people in latest technologies, industrial exhibitions like IT expos etc. are also gaining importance. More than all these measures, providing quality service to the customer is the best promotional strategy, as word-of-mouth publicity and client appreciation can bring more business for the customer. News items and press releases on introduction of new services or on successful completion of projects also promote the services of a company in the market.

### **People**

The IT industry is essentially knowledge driven, as has been mentioned in the beginning of the chapter. It is based on the intellectual capital of the people. Technical knowledge and skills and the managerial abilities of the people run the industry. However, one huge drawback of the IT industry is the high turnover rate. The industry is characterized by extremely talented and relatively young people. Attracting talent is not a big problem. However, in view of the opportunities provided by the development of new technologies and the large pay packages offered by competitors, retaining such talent is a major issue. Companies across the world, facing this problem, are taking measures to reduce the turnover rate by providing several incentives to employees. For example, many companies were earlier offering Employee Stock Options (ESOPs) to employees. However, with the stock markets becoming unpredictable, ESOPs have lost their sheen and companies are looking at other avenues to attract and retain talent. Training is one such tool.

Training employees in new technologies and providing them opportunities to grow is one of the employee retention strategies employed by IT firms. This also has the additional benefit of improving the efficiency of the firm. Knowledge workers need to be recognized and appreciated for their talent. Though pay is also a factor, empowerment and good work culture can go a long way in retaining and motivating employees in the IT industry.

### **Process**

The process of manufacture and delivery of quality service at the lowest possible cost is very important in the IT industry. In fact, it is true for any service industry. The production process involves understanding the nature of the project, assessing and

capturing customer requirements, preparing a project plan, developing the software to meet the objectives, testing it and delivering it to the customer. Delivery of services can be either on-site or off-site depending on the project. Models like Capability Maturity Model (CMM) are developed to test the efficacy of the process in an organization. Such models help detect problem areas and take measures to correct them to ensure the quality of the product. Other certifications like ISO also help to assure the quality of the manufacture and delivery of services.

### Physical Evidence

It is not very easy to provide physical evidence to customers in the IT industry. Excellent infrastructure and state-of-the-art technology can be used as means of providing physical evidence, but they cannot be true indicators of the proficiency or capability of the service provider. Certifications like CMM and ISO can be used along with certificates from clients. Websites of most IT companies display the appreciative comments of some of their prominent clients.

### IT INDUSTRY IN INDIA

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During the past decade, the Indian IT industry has been experiencing a dramatic growth. It grew from Rs.4.7 billion in 1991 to Rs.755.47 billion in 2003, accounting for nearly 3 percent of the GDP. The revenues generated from software exports reached \$10.4 billion for the financial year 2003 with a 30 percent growth over the previous year. The main factors which contributed to the success story of the Indian IT industry are:

- Support from the Government in the form of industrial parks, which enjoy various incentives and tax benefits
- Liberal export-import policy
- Strict quality policies adopted by the IT industry in terms of reliability, stability and maintainability by adhering to the standards laid down by ISO 9001 or SEI/CMM or both. (Nearly 80% of the software companies in the world that have SEI/CMM Level 5 are from India)
- NASSCOM acting as the platform for all IT companies to make representations to the Government on industry problems and integrating the domestic industry with the global industry
- Infrastructure provided by DOT and VSNL.
- Conferring priority sector status on the IT industry
- Financial backing in the form of enhanced working capital limits from financial institutions and support from venture capitalists in India and abroad.
- Keeping abreast of the latest developments in technology
- Well qualified, dedicated and enthusiastic professionals

In a developing country like India, where earlier it was feared that information technology would mean men being made redundant in favor of machines, the explosion of IT created new avenues of employment in the form of exporting professional services, vending Internet services, training and education, IT Enabled Services like medical transcription, back office operations, insurance, healthcare etc. In addition, the low cost of operations is expected to bring more and more outsourcing projects to India, thereby creating more employment opportunities.

### Challenges Before the Indian IT Industry

The government of India has a vision to make the country a global leader in IT by the end of year 2008. In spite of the growing number of software professionals, the demand- supply gap still exists in the Indian IT manpower market. The IT Taskforce Committee appointed by the government estimated that the fast growing domestic IT and ITES sectors would need nearly 2.2 million professionals by 2009, up from the present strength of 700,000; but a shortage of one million professionals is anticipated by 2008.

Another challenge before the industry is whether it can guard against the danger of commoditization.

The global IT market is cost-driven. It is true that India has the advantage of low cost of operations, but so do other Asian countries like Singapore, which is offering the same services as India at half the cost. China has become a major threat, with its low production cost, huge reservoir of human resources, operational flexibility and large economies of scale. The anti-outsourcing campaign in the UK and the US is also going to be a problem for the Indian IT industry and its back office operations.

The best way to face these challenges is by focusing on generating intellectual property, encouraging strategic acquisitions and alliances, improving the quality of business with a focus on developing domain consulting, carving niche markets etc. Until date, the Indian IT industry has concentrated on only two service lines, namely, application development and application outsourcing. So, it needs to increase its presence in new service lines such as Packaged Software Support and Installation, IT consulting, Network infrastructure management, Systems integration, IS outsourcing, IT Training and Education, Hardware support and Installation, and Network consulting and integration etc.

In addition, Indian companies have focused primarily on three key verticals (Financial Services, Telecom and Manufacturing) that account for nearly 45% of the industry's revenues. They need to penetrate the under- exploited verticals like retail, telecom service providers and healthcare, which are believed to be the future of IT services. The successful implementation of these strategies would determine the future of Indian IT industry.

### SECTION SUMMARY

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The IT industry needs to provide quality customer service and maximize customer satisfaction at the lowest delivery cost. It is an economy-dependent industry and is exclusively knowledge-based. The IT industry in India is one of the major contributors to the country's economy. The growth of the IT industry in India has supported the birth and development of ITES (IT Enabled Services) sector in the country.

The rapid pace of innovations in technology in the areas of telecommunications, software and related fields began to redefine the way the IT industry operated. The market segmentation of the IT industry can be done on the basis of geographic locations, turnover of the customer companies, requirements of the specific groups of the customers, categorization of industrial and non-industrial users, etc. As major portion of IT solutions are targeted at the corporate sector, segmentation is generally corporate-centric. The fast and continuous product/service development, adoption of the right processes, competitive pricing of products/services and promotion of these along with recruiting and training the right people, are very important in the IT industry.

Shortfall of manpower, guarding against commoditization and the problems posed by the anti-outsourcing policy of USA and UK are among the challenges faced by the industry. Focusing on generating intellectual property, encouraging strategic



## **Professional Services Marketing**

acquisitions and alliances, improving the quality of business with a focus on developing domain consulting, carving niche markets etc. are some ways to combat the challenges.

The industry should also try to increase its presence in new service lines such as Packaged Software Support and Installation, IT consulting, Network infrastructure management, Systems integration, IS outsourcing, IT Training and Education, Hardware support and Installation, and Network consulting and integration etc. It needs to penetrate the under- exploited verticals like retail, telecom service providers and healthcare, which are believed to be the future of IT services.

## Consultancy Services

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**In this section we will discuss:**

- Characteristics of Consultancy Services
  - Market Segmentation and Strategy
  - Marketing Mix
  - Challenges for the Indian Consultancy Industry
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In today's highly competitive business environment, most organizations face challenges at some point in time and seek the objective guidance of an expert to help them emerge successful. Professional consultancy services are offered by experts in the field to help customers achieve their business objectives. These services include a basic understanding of the organization's needs, an in-depth analysis of the issue at hand and advice on the best or optimum solution. While some consultancies offer only advice, most of them offer implementation support too to the client.

Consultancy is perhaps one of the oldest professions, dating back to the astrological consultants of the pre-Vedic times. However, the modern day professional consultancy services have their origin in the eighteenth century when legal and medical consultants started to gain prominence. In the early 20<sup>th</sup> century, the industrial revolution contributed to the rapid growth of business and industry, which required the advice and assistance of professionals on various business related matters. It was practically not feasible for the management or its employees to find solutions to a varied range of problems. The growing complexity of business required the guidance and assistance of experts in each specialized field and this paved the way for professional consultancy services.

During the initial days of the evolution of modern consultancy business, finance, accounting and taxation services dominated the industry as the growing economy and the complex taxation laws required expert advice and guidance. After World War II, a new wave of industrial revolution swept the world economy, giving birth to a new class of experts called management consultants. They began to provide a variety of services like organizational planning, organizational restructuring, development of business strategies, human resource planning, budget forecasting, inventory management, etc. As the importance of business education grew, the number of business graduates grew manifold and more and more professionals started joining the consultancy industry. The IT revolution during the 90s and the early 2000s threw open a new world of opportunities, thus adding a new dimension to the industry. Today, consultancy services are not restricted to business activities alone, but have invaded almost every walk of life like education, health, law and the media to name a few. The industry expects to grow along with the growing economy and the consequent need for specialist advice.

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### CHARACTERISTICS OF CONSULTANCY INDUSTRY

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Consultancy is essentially a people-driven, knowledge-based industry. Consultants are professionals who possess specialized knowledge and skills in a particular field/area of operation. They help customers solve their organizational problems, improve their organizational processes and working, create and launch new products or services, refine their existing strategies and capture new markets and clientele.

The conflict between professionalism and commercialism in relation to marketing is one of the striking features of the industry. The marketing of a product/service, which is considered a commercial measure, is not possible in some professions. For example,

professionals like doctors, lawyers, chartered accountants, company secretaries etc. are forbidden to market their services. There was a time when management and other consultants too followed their example and considered marketing their services as unprofessional and undignified. However, this attitude underwent a gradual change as more and more companies entered the industry and competition intensified. Today, marketing consultancy services is no longer considered taboo and most consultancy services do resort to active marketing. However, the professionals like lawyers, doctors and chartered accountants are still forbidden from marketing their services.

Earlier, consultants merely used to offer their opinion on the given problem and make recommendations regarding the course of action. However, present day consultants are more proactive and offer several other value-added services like active client involvement, professional support in the implementation of the recommendations made, improvising/modifying the action plan based on the feedback of the client, etc. Present day clients are more demanding too and the days of 'cogent reports' of the consultant are well and truly over. Now, the emphasis is more on results. This emphasis on results is changing everything about the business— from the way consultants operate to how they are paid. For example, the motto of Bain and Company, a US consultancy firm, is, "Results for the clients, not reports for the clients."

The IT revolution over the past decade and a half has opened the gates for new areas like e-commerce, knowledge management, etc., which require both domain and technical expertise. It has also brought about many changes in the working style of the industry. Once upon a time, making an impression on the client by maintaining an impressive office was considered a prerequisite for success. But now, face-to-face personal contact with the client is limited and there are thousands of consultancies offering services exclusively through the web. The style of working has become more flexible, professional and technology oriented.

One of the recent trends in the consultancy services industry is the quest for size. Growth in size is organic, and also through acquisitions and mergers. McKinsey, a leading global consultancy, had only 540 consultants two decades ago. Today it has 4,000. Anderson Consulting employs nearly 44,000 (up from 13,000 in 1990) and has 152 offices in 47 countries. Lately, there have been many horizontal mergers as firms operating in the same area have come together to expand their markets, achieve economies of scale and synergy. One of the most prominent of these mergers was that of Price Waterhouse with Coopers and Lybrand, resulting in Price Waterhouse Coopers, one of the biggest accountancy and consultancy firms in the world. In India too, the trend was evident as Ernst & Young acquired Arthur Anderson. Experts are of the opinion that the need for knowledge and speed has shifted the balance in favor of size. The number of players in the industry has also increased during the past decade, as many senior executives after retirement and middle managers swept away by the down-sizing wave of the 90s, have opted for a career in consultancy.

## MARKET SEGMENTATION AND STRATEGY

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Segmentation is the basis for planning the marketing strategy in any industry. In the case of consultancy services, industry segmentation is generally customer based or based on the services offered. A consultancy can be a specialist firm providing services to a particular section of customers or a multiple service firm catering to the needs of a varied clientele. For either category, the target groups have to be identified, i.e. the class of customers whose needs and requirements match the services offered by the firm. On the basis of this broad segmentation, the market can be further segmented, depending on the industry groups and their industrial and economic dynamics, the size and turnover of the client, geographical location, existing and potential clients, cost of operations, etc. In the case of a multiple service firm, the segmentation is required to be done for each class of service separately.

### **Exhibit 28.2** **Success factors of McKinsey**

McKinsey is the largest consultancy firm in the world and has been in the business for the past 75 years. It operates in 52 countries and employs 140,000 people. The firm says that they follow some core principles or strategies, which help it retain its leadership position. These strategies are -

- “Work with our clients, not for them” – The firm believes that it should be in tune with the clients and should not perceive the business needs of the client from outside. So, it works along with the clients, and not for them.
- “Bring the best of the firm for each client” – The firm believes that it should always put its best foot forward, whenever it takes up an assignment. No matter who the client is, the quality of service has to be the same always – the best.
- “Take a top management perspective” – Being a business consultant, the firm believes that every aspect of the business has to be viewed from a wider perspective. No issue should be looked at in isolation and various aspects and perspectives need to be considered.
- “Establish a solid fact base” – The firm believes in working on a solid data/fact base. Working on assumptions and intuition may not always work in a business scenario.
- “Preserve confidentiality” – McKinsey believes in maintaining the confidentiality of an assignment. Confidentiality includes maintaining the business secrets and strategies of the client, along with the data and information collected.

The firm also believes strongly in team work. In fact, it says that no single office or team owns a ‘client relationship’.

All these factors have resulted in excellent business and success for the No.1 company in the world.

*Source : [www.mckinsey.com](http://www.mckinsey.com)*

As already mentioned, the consultancy industry has gradually undergone a change of perception regarding marketing its services. It is experiencing an increasing need for active marketing in view of the mounting intensity of competition. However, creating and strengthening the market for an intangible product takes time and requires patience. The methods of marketing traditionally followed by the industry were circulation of brochures, referrals, calling the potential customers personally, executive interviews, publication of articles and books, conducting seminars and conferences, professional meets, university lectures, undertaking pro-bono assignments, reply-paid opinion surveys, etc. The changing times, however, demand a change of strategy. Aided by the IT revolution, promotional campaigns through the Internet and 24 x 7 on-line support have become most common in the recent times. Advertising in newspapers and magazines is also very commonly resorted to.

Over the past few years, in view of strong competition, the consulting business has become interested in brand building as an important marketing strategy. A.T. Kearney calls itself “the achievement consultants”. Price Waterhouse targeted four key individuals in each of Europe's top 1,000 companies and barraged them with its publications. Andersen Consulting broke a long-standing industry taboo by spending more than \$30m a year on advertising. Some consultancies try to advertise themselves by sponsoring events. Andersen Consulting, for example, set a precedent by sponsoring golf tournaments and motor races. All these recent developments prove that the consultancy industry has come of age as far as marketing its services is concerned.

Exhibit 28.2 discusses the factors that have contributed to the success of McKinsey.

## **MARKETING MIX**

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The elements of the marketing mix for a consultancy firm are the same as those for any services firm. However, the balance among the mix elements keeps changing from firm to firm, based on their strategies and from time to time, based on the external environment. Let us discuss the marketing mix elements for a consultancy firm.

### **Product**

Product in consultancy services includes the results of the analysis performed by the consultancy, the professional advice offered, and the implementation support provided. It is basically the final service output of the firm, and has a direct impact on the client's satisfaction. The utmost care has to be taken with regard to the quality of service offered to the customer, as it determines customer satisfaction and eventually, business growth. Also, the product aspects of the services should be identified so as to provide effective services in relation to such products. For example, specialization like budget planning, market research, techniques like opinion surveys, operations research, processes like counseling, etc. may be considered the product aspects of the services.

### **Price**

Price is the fee received from the client for providing consultancy services. The fee can be determined based on the project undertaken/service provided, reputation of the consultancy, and competition in the market. The value of the service provided can be calculated based on the number of professionals employed on the project, their hourly fee, overhead charges, royalty etc. Prices charged by specialist firms are higher than the prices charged by multiple service providers.

The price of services is not an issue for large professional companies as they can afford to pay a premium if the service quality reflects it. Therefore, reputed consultancies that offer value-added services charge a premium from their clients. However, for small and medium sized consultancy firms, price is a very important factor, especially if they are multiple service providers, since specialist firms always command higher remuneration. Their clients are also small companies that cannot afford to pay high fees. Also, another disadvantage of the small and medium-sized firms is undercutting as the number of players keeps increasing in the absence of entry restrictions.

### **Place**

Consultancy services cannot have any intermediaries in the process of delivering or distributing the service. Since it is a people-based industry, the stress is on the individual knowledge and skills of the service personnel. Therefore, it is impossible for the consultancy firm to trust any intermediaries except the employees of the firm. One possible and widely used channel for service distribution in this industry is the Internet. In fact, the evolution of this technology has given rise to many online consultants.

There was a time when the appearance and ambience of the consultancy firm's office used to matter the most to make the best impression on the clients. However, this is relevant only when there is personal interaction with the client. The office should be centrally located and easily accessible; and should try for a professional yet relaxing atmosphere. In the age of the Internet when all the transactions are carried on through the web, personal contact with the client is slowly becoming redundant. In this case it is no longer necessary to stress on office location.

## **Services Marketing**

### **Promotion**

As discussed earlier, consultancy too requires promotion like any other service in the present competitive environment. Consultancy is primarily about selling confidence to the client, as the client needs to trust the consultancy with the business. So, a mere promotional hyperbole is not enough. Any promotional campaign should be backed by quality service for which there is no substitute. The best way to promote a consultancy is by promoting its past successes and past and existing clients in trade circles. Word-of-mouth publicity also helps consultancy firms promote their business. Also, every marketing strategy should be cost-effective because the consultation fee is the only source of income in the industry. Building new relationships and sustaining the existing ones is the core idea behind the promotional activities.

### **People**

Consultancy is a 'people-skills' industry. It is the employees of a consultancy firm and its clients that constitute 'people'. People form the pivot around which the whole industry revolves. The quality of the service delivered and consumed depends on the skills, knowledge, attitude and the experience of the consultants and the clients. People manning the firm can make or mar its fortunes. That is why reputed firms like McKinsey spend fortunes on recruiting the most qualified, talented and experienced persons. The firm spends nearly \$50mn every year on formal training. But retaining the talent has always been a problem in the industry. So, the staff are being provided with various privileges to reduce the turnover.

The skills and knowledge of the clients are as important as those of the consultants. This is because the client has to understand and apply the professional skills and knowledge provided by the consultant. In the absence of a deserving client, the whole consultation might be a waste.

### **Process**

Each firm has its own process of operating in the consultancy industry. The process depends on the client, the nature of the project in hand and the work culture of the firm. Though each project requires a separate action plan, most firms develop their own unique models, which can be suitably modified according to the requirements of the client. For example, while McKinsey follows the 7-S model, Anderson Consulting follows the change-integration model. The objective of the process should be to help the intangible service provide a tangible output to the maximum satisfaction of the client.

### **Physical Evidence**

It is not feasible to offer physical evidence to the clients of a consultancy firm. The only means of evidence can be the past successes of the firm and its analysis of the existing problem of the client. For example, say a marketing firm wants to introduce a new product in the market and employs the services of a consultant to give it professional advice and guidance. The consultancy can conduct a market research and market survey for the new product and based on the analysis, can offer its comments and advice. The results of the survey and the research can serve as physical evidence for the client.

Promotional brochures carrying client remarks and process and quality certifications can also provide physical evidence to customers.

## CHALLENGES FOR THE INDIAN CONSULTANCY INDUSTRY

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The Indian consultancy industry is growing at such a fast pace that the annual business is estimated to be over Rs. 500 crore. Today there is a greater supply of than demand for consultants as easy entry enables anybody and everybody to call himself a consultant. According to market research studies, 90 percent of the firms are medium and small sized. Their identity is under threat as almost all international big players like Ernst & Young, McKinsey, Anderson Consulting, Price Waterhouse-Coopers etc. have opened branches in India. It is true that these multinational companies charge five to ten times the fees that Indian firms charge, but most major clients prefer to hire the services of these reputed firms. These firms have already appropriated a major chunk of the market by bagging major restructuring assignments of the big corporates and several public sector projects. Only a few Indian firms like TCS are able to compete with such MNCs and that too, in a few limited areas of operation.

Another threat to the domestic industry is that most of the medium and small-sized firms are multiple-service providers. It is easy for a specialist firm to survive even though it is small or medium-sized, since the client prefers a specialist to a general service provider. Since all the clients cannot afford the prices of MNCs, many of them prefer to go to the domestic specialist firms. So it places the generalists at a disadvantage. The rapid changes in the industry due to globalization have forced the Indian consultancy firms to go in for specialization in order to survive.

Domestic firms in India can fight the competition by upgrading themselves and adopting techniques like optimum utilization of resources, organizational and operational restructuring, increasing their size and strength through strategic mergers and acquisitions, re-orientation of the marketing strategies, networking with other firms, concentrating on research and development etc. According to Ian Gomes, country managing partner - India, KPMG, the key growth sectors for India include outsourcing, pharmaceuticals, healthcare, manufacturing and infrastructure. With domestic companies increasingly looking for opportunities for global expansion, there is likely to be a rise in the need for advisory services which bodes well for the Indian consultancy industry.

## Healthcare Services

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**In this section we will discuss:**

- Market Segmentation of Healthcare Industry
  - Marketing Strategy
  - Marketing Mix
  - Recent Trends in Indian Healthcare Industry
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There was a time when healthcare meant only hospitals, and, in a developing country like India, healthcare was provided mainly by the Government. Considering healthcare a commercial industry was beyond imagination even for the best business analysts. In those times, healthcare meant a government hospital or a private dispensary that provided medical facilities. Today, the word 'healthcare' encompasses a much broader meaning and embraces many other allied services like diagnostic services, pathological labs, physiotherapy centers, ambulance services, fitness centers, health clinics etc. Though it emerged as a full-fledged industry in the West a long time ago, corporate hospitals in India have just started making their mark.

Medical services were traditionally considered sacred in India and a doctor was next only to God. Therefore, initially there was resistance to corporatization of healthcare, as many people believed that commercialization would lower the dignity of such a sacred profession. However, the perception of the people began to change gradually due to the cultural revolution in the country over the past decade and a half. One of the basic reasons for the acceptance of the idea by people has been the improved standard of healthcare with the advent of corporate hospitals.

In a welfare state like India, healthcare remains the responsibility of the state. However, given the 100 crore population, it is not possible for government to provide medical services free of cost. The heavy costs involved in obtaining sophisticated infrastructure and the need to maintain quality of services prompted the Government to welcome participation of the private sector in an area which was considered essentially a state responsibility.

The Apollo group of hospitals, CDR group of hospitals, Jaslok hospital of Mumbai, Malar hospitals of Chennai, Care group of hospitals, Hyderabad, Medicity, Medinova etc. are some of the famous corporate hospitals in India.

The uniqueness of the Indian healthcare system is the presence of various streams of alternate medicine, like Homeopathy, Naturopathy, Ayurveda, Unani, Nature cure, Pranic healing, Reiki etc. Interestingly, alternate medicine, which has always been in the hands of private people, is still conventional in its approach. In contrast, the mainstream medicine, popularly known as Allopathy/English medicine, which till recently was a state monopoly, is moving towards corporatization at full throttle. Today, healthcare is not just a profession, but also a commercial activity and comes under the purview of the Consumer Protection Act, 1986. However, government and other hospitals where services are provided free of cost are exempted from the purview of the Act.

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### MARKET SEGMENTATION

Healthcare may be broadly segmented into hospitals, allied services like pathological labs, ambulance services, private mortuaries, pharmacy centers, paramedical services like fitness centers and beauty clinics dealing with obesity and skin problems, and academic institutions like medical colleges, nursing schools and research centers.



Hospitals, which are a major part of the health services, can be broadly divided into three segments in the Indian context, viz. government hospitals, non-government charity Trust hospitals and private corporate hospitals. Corporate hospitals can be segmented into 'poly clinics,' which provide services in relation to a wide range of health problems; 'multi-specialty hospitals', which provide specialist services apart from the regular services; and 'super specialty hospitals', which specialize in a particular category of health issues like L.V. Prasad's Eye Institute which provides exclusive eye-care. Apollo Hospitals, Medinova, Medicity etc. are examples of multi-specialty hospitals. Escorts hospital in Delhi, which specializes in heart problems and Indo-American Cancer Research Center of Hyderabad are examples of super specialty hospitals.

There are several other hospitals which specialize in particular health issues, viz. cancer hospitals, fertility centers, maternity hospitals, pediatric hospitals, plastic surgery specialists, lunatic asylums etc.

Each category may further be segmented on the basis of demography, geography, socio-economic background, age and sex of the target groups, nature and price of the services, in-patients and out-patients etc.

### MARKETING STRATEGY

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Earlier, marketing of health services used to be considered highly unbecoming of the sacred profession. However, today, healthcare is like any other commercial activity, which needs to be promoted to survive competition.

Another reason for the change of perception relating to promotion of healthcare is the change in the balance of demand and supply. In the olden days, since healthcare was primarily a state responsibility, government hospitals had a near monopoly. The number of private hospitals was comparatively low and not many people could afford their prices. Therefore, demand far exceeded supply. There was absolutely no need for promotional activities in such a situation. However, as the government policy changed to welcome private participation, the number of players in the market increased considerably and there is lot of competition among them, making promotion inevitable. To be precise, the competition is among the corporate hospitals, as government hospitals, private doctors and small clinics continue to hold on to their client base basically comprising the poor, middle and lower middle class sections of society. Patients from the middle class visit corporate hospitals when a private doctor suggests special care and treatment and they do not trust government hospitals to provide such treatment. The poorer sections of the city do not think of visiting a corporate hospital, as they know that they cannot afford it.

Today, the awareness level of consumers is high. Since their purchasing power too has increased considerably, consumers are in a position to pay more and demand quality services. Therefore, whoever provides the best quality of service will have more business. This is true even for the healthcare industry. Marketing services has thus become imperative for the modern corporate hospitals to convince customers of their superiority over the competitors.

In addition to conventional methods of advertisement, interviews with doctors in newspapers, magazines and television, running charities, conducting seminars, paper presentations and guest lectures in foreign universities, intense media and web based advertisements have also become important.

Increase in costs of operations has compelled corporate hospitals to look for alternate sources of revenue. As a result, some of them are going for public issues. Apart from helping to mobilize funds, being listed on the stock exchange is also a good way of promotion, as their names and share prices are quoted every day by newspapers and television. Many hospitals are also selling medical insurance through third parties to

### Exhibit 28. 3

#### Marketing Strategies of Apollo Hospitals Group

Apollo Hospital was the first corporate hospital in India and the first Indian hospital to be hosted on the 'Net as well. It was established in 1983 at Chennai as a 150-bed hospital. By 2004, it became the single largest private hospitals group in India, with 35 hospitals in South Asia.

Apollo has gained international reputation as a provider of excellent quality health services. It has a large clientele of 10 million patients from over 55 countries. This corporate hospital has an excellent market strategy and has reaped the benefits of its efforts. Its overall asset value crossed US \$50 millions.

Apollo is a truly global hospital as it plans to extend its services to customers across the globe, setting up hospitals in different countries. Having opened its first clinic in Doha, Qatar it plans to open 250 clinics over the next five years, including 40 in countries like Bangladesh, Pakistan, Saudi Arabia and South Africa.

Apollo offers services in different medical areas and is a multi-specialty hospital. It offers services in nearly 60 medical specialties like cardiology, neurology, gynecology, ENT, Cardiothoracic, oncology etc. It has widened its scope of operations to include alternative systems of medicine. It also offers treatment in alternate medicine, like ayurveda, aromatherapy, music therapy, Pranic healing, Reiki etc.

Apollo has been recognized for its services to the Indian healthcare industry. It has been given the 'Center for Excellence' award by the Government of India. It has also received the highest rating accorded by accrediting agencies like ISO & CRISIL.

Apollo has also ventured into the field of medical education. It has launched the Global Nursing Program, a certificate course in Telehealth Technology and a course in medical music therapy. The Royal College of Surgeons Edinburgh (UK), Royal College of Radiologists (UK), The National Board of Examinations (Govt. of India) and several Indian Universities have recognized Apollo's educational standards.

Source: [www.apollohospitals.com](http://www.apollohospitals.com)

attract more customers. As competition intensifies and technology develops, the marketing strategies too will change accordingly. Exhibit 28.3 explains the marketing strategy of Apollo Hospitals in India.

## MARKETING MIX

Having the right marketing mix to market the services of the healthcare industry is very important. The fact that healthcare is a service where the customer will not be satisfied with anything but the best makes it essential for service providers to take extra care in planning their marketing mix. Using the right balance of marketing elements, marketers can ensure that their marketing efforts fetch them the expected results.

### Product

The product elements of healthcare consist of the actual medical treatment provided in the hospitals, education and training provided by medical colleges and nursing schools and R& D activities carried on by the research centers. In the case of hospitals, the product is contained in three broad areas, viz. diagnosis, treatment which may be pill-oriented or surgery-oriented, and post-operational care. The product also includes supplementary services like maintenance of the case history of patients, registration, billing and support operations like laundry, diet, pharmacy, stores, security etc. These services help give a tangible effect to the intangible nature of the services provided.

### Place

Place is one of the key elements, in the sense that the service provider should be easily accessible to the patients, but at the same time, should be adequately protected from pollution.

Corporate hospitals can distribute their services using the services of doctors and private clinics. For example, doctors who have their private practice, work as visiting/consultant doctors for corporate hospitals. They can refer their patients to these hospitals for diagnosis, surgeries etc. Other doctors too can refer their patients to corporate hospitals, as they do not have adequate facilities for specialized services.

Corporate hospitals can also use ambulances to offer immediate care to patients in emergency conditions.

### People

Without people, healthcare as an industry cannot exist or survive. People include patients, and the staff who treat and take care of those patients. Healthcare is also a knowledge-based industry. Doctors and technicians, who take care of the diagnosis and treatment of patients, form the core of this knowledge base. Therefore, it is important for corporate hospitals to attract and retain doctors with excellent knowledge and skills, and also the right attitude. The support and assurance of the doctor is the best medicine for the patient and cures him largely. Patients prefer a friendly doctor who gives personal attention, to a doctor who treats them as commodities and deals with all of them alike.

Patients should be provided utmost care as their recovery depends not just on the medical treatment but also on the human touch provided by the support staff. So, apart from being technically qualified, support staff like nurses and housekeeping personnel should be well-mannered, gentle, hygienic and meticulous. In order to provide quality treatment and support services, many hospitals run their own medical and nursing schools to train staff according to their requirements. Apart from maintaining quality staff, many hospitals also conduct customer education programs to enable patients and the attendants to appreciate the value and quality of healthcare.

Patients also play a role in service delivery. It is impossible to have an efficient delivery if the patient is not either confident or supportive.

### Promotion

Promotional activities by a hospital should be able to communicate the right message to patients and their relatives. The communication can be regarding the treatment and auxiliary arrangements like transport, communication, diet, facilities for attendants of the patients, prices etc. Apart from this, direct promotion includes inpatient-doctor interaction and the care taken by the support staff.

Some hospitals also run special promotional campaigns. For example, Medicity issues 'Gold Cards' to patients, which entitle them to free monthly checkups and treatments at concessional prices. CDR Group of hospitals reserves one day in the week exclusively for women as a promotional measure. Media based advertisements and promotional messages displayed on hoardings at public places are gaining popularity with corporate hospitals. Many hospitals run awareness programs like 'AIDS prevention campaigns', 'Polio pulse', 'Alcohol and drug rehabilitation' etc. They also run special campaigns to promote heart check-up or dental check-up at concessional rates.

## **Services Marketing**

### **Process**

Services are provided under two broad categories, viz. services for inpatients and those for outpatients. The processes for these two services are a little different. The basic process however starts with reporting at the reception at the appointed time and meeting the doctor concerned for diagnosis and treatment. If the doctor says that simple medication is required, the patient can avail of the services as an outpatient. However, if the doctor says that the patient needs special continuous care and needs to be admitted to the hospital, then the patient becomes an inpatient.

Services for inpatients are spread over operation theaters, intensive care units, emergency units, regular wards etc. Administrative work like registration, stores, diet for the in-patients, maintenance of the patient records, security etc. is carried on by the staff assisting the line officers. Apart from the in-house treatment, some hospitals run mobile clinics to provide patients easy access to their services. Providing online consultation is also fast gaining popularity in the West, though in India, where technical awareness is comparatively low, it may take some time for the masses to welcome such innovative concepts. Corporate affairs are managed by professionals specially appointed for this purpose. Affiliated academic institutions educate and train healthcare professionals and research institutions concentrate on discovering and developing new concepts.

### **Price**

Pricing healthcare services is done keeping in view the cost of running the hospital, the overheads, salaries and wages of the doctors, nurses and the administrative staff, cost of equipment and infrastructure, bed occupancy, quality of service and the income levels of the patients. Many hospitals follow differential pricing policies. Membership cardholders are given treatment at concessional rates. Patients opting for general wards and private wards are also charged different rates, depending on the facilities provided to them. Alternate medicine is not yet fully commercialized, so services are provided for nominal prices. Paramedical centers like beauty clinics and fitness centers price services depending on their popularity and on the income levels of the target groups. In the case of academic institutions, the price of the service depends on the type and duration of the course. People who qualify for scholarships will be entitled to take the course either free of cost or at concessional prices, depending on the policy of the institution.

### **Physical Evidence**

Apart from the location, the ambiance of a hospital is also very important for making a positive impression on patients and their attendants. Therefore, corporate hospitals should be very careful about presenting the right kind of atmosphere, which is both hygienic and relaxing. A large open lawn or garden with a simple layout and comfortable seating arrangement for patients has become essential for hospitals to remove the perceived risk of patients.

Apart from interior decoration, lighting and ventilation, attention should also be paid to necessary infrastructure like electricity, water, sewerage, communication and transportation, security etc. The certifications and awards won by doctors of the hospital and the service certificates won by the hospital can all be displayed at the reception to instill confidence in the customers.

## **RECENT TRENDS IN INDIAN HEALTHCARE INDUSTRY**

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The Indian healthcare industry has evolved as an industry only in the recent times. However, within a short span, owing to its intellectual wealth and infrastructural facilities, it has gained international reputation. Its clientele include patients from countries like Pakistan and Iran, who visit India for treatment.

Indian healthcare industry offers some highly specialized services, especially in areas of heart care, eye care, pediatrics, infertility treatment, cancer treatment etc. This has resulted in the availability of enhanced quality services for patients, not only from India, but also from abroad. However, with the high prices associated with these specialized services, some of them have become inaccessible to the average customer. On the other hand, some corporates offer their services at concessional rates or free of cost to some poor patients. This not only promotes the services of the hospital by improving public relations, but also upholds the sanctity of the profession. This becomes very relevant in view of accusations by some purists that healthcare is being commercialized.

Indian corporate hospitals should not concentrate on the metros alone, but try to cater to the needs of those residing in towns and villages too. It may not be possible for hospitals to reach every nook and corner of the country, but they can always use mobile medical services or arrange special camps in remote areas to serve the needs of people. This helps in creating a good image of the organization among the public and also increase business opportunities for these corporate hospitals.

### SECTION SUMMARY

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Earlier, healthcare in India was considered the responsibility of the government and no private players ventured into the industry. Doctors had their small clinics and private practices, but the idea of corporate hospitals was almost non-existent. However, the Indian healthcare industry has come of age and has become quite competitive in recent times. Corporate hospitals are trying to attract customers by offering value-added services.

Healthcare services can be segmented into hospitals, allied services like pathological labs, pharmacy centers etc., paramedical services like fitness clinics and academic institutions like medical colleges, nursing schools and research centers.

With the increasing awareness and purchasing power of the customers, the pressure on hospitals to provide quality care has increased. The customers accept nothing but the best quality, especially because this industry has a direct impact on their life and their health.

The product element of the healthcare industry includes diagnosis, treatment provided, the education and training provided to nursing and medical students and the research. Services like facilities for attendants, ambulance and pharmacy services etc. augment the core service. The pricing of services should take into consideration the operational costs and the paying ability of the patients, apart from the value provided to the customers. Place has very limited scope in marketing of healthcare services. Promotion of the services of corporate hospitals using advertisements, banners, hoardings and promotional campaigns like “heart-week”, when services are provided at a concessional cost, has become imperative to survive in the competitive market. Being a knowledge-based industry, people play a very important role in marketing healthcare services. Processes add value to customers and also improve the efficiency of operations of the hospital. Physical evidence can be provided using a good layout and maintaining hygiene. Supplementary services also help in providing physical evidence to customers.

The Indian healthcare industry has evolved to gain global reputation. Patients from other countries have been visiting India to avail of the medical facilities offered by the corporate hospitals here. However, corporate hospitals in India have to identify means to cater to the needs of the common man too.

## Advertising Services

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**In this section we will discuss:**

- Evolution of the Advertising Industry
  - Segmentation and Marketing Strategy of the Industry
  - Marketing Mix
  - Advertising industry in India
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The advertising industry is also dependent on the economic situation, like most other service industries like IT services and hospitality. It also varies with changes in the business cycle. As businesses experience a downturn, companies try to cut costs, and in the process, bring down their ad spends. This has a direct impact on the revenues of the advertising industry. Thus, changes in economic and business life cycles have a direct impact on the business of advertising.

Advertising has invaded almost every sector of the industry today. With the world becoming a global village, competition has become inevitable in every industry. And, to survive and thrive in a competitive market that is cluttered with similar goods and services, organizations need to differentiate themselves from competitors.

Industries ranging from banking to manufacturing and from IT services to retailing, are all dependent on advertising to promote the business. Advertising helps an organization create awareness of its products/services and their benefits among the target segment. It can be used to build or strengthen a brand, to attract customers to buy the products and services of a firm, or to compete against competitors' products/services in the market. For example, an advertisement of Ariel by P&G talks of the benefits of the product and persuades customers to buy it. On the other hand, an advertisement of "Teenie Weenie", a small fridge by Voltas, aims to introduce a new product to the customers. Thus, advertising has many purposes.

Advertising in India has gained a lot of importance, with increasing competition and globalization. Many global advertising agencies like O&M, Saatchi & Saatchi and Leo Burnett operate in India either through their local partners or on their own.

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### EVOLUTION OF THE ADVERTISING INDUSTRY

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Advertising might have developed as a full-fledged commercial industry only in the past few decades, but the activity originated thousands of years ago. The oldest written advertisement is a 3,000-year-old Theban tablet offering a reward for finding a runaway thief. After John Gutenberg invented printing in the seventeenth century, advertising through classifieds in newspapers and magazines became a common practice. Advertisement came to be recognized as a profession when the first advertising agency, 'Reynell & Son', was founded in 1812. The Industrial Revolution in the early twentieth century and the invention of radio and television played a catalytic role in the emergence of advertisement as a major service industry. The emergence of an educated middle class compelled the trading section to develop brand identities to set apart their products from those of competitors. More and more businessmen started to rely on advertising to create and maintain mass appeal for their products. In today's competitive markets, promotion is recognized as an integral part of the marketing mix for all products and services. The IT revolution, evolution of the global village in the past decade-and-a-half, and the entry of MNCs into the domestic market brought drastic changes in the business arena and today, advertisement is one of the thriving service industries.

The role of an advertising agency in promoting a business is not limited to providing information to customers or building a brand. Many advertising agencies are moving towards becoming a 'one-stop communication solution' or 'full-service advertising agency' by diversifying into allied fields such as market research, packaging design, direct and test marketing, merchandising, event management, public relations, media planning, media buying etc. This, they expect, would broaden their horizon of operations and help in attracting new customers and as well as in retaining the existing customers. The industry is fraught with competition due to an unprecedented growth in the number of players - both national and international - and demanding customers. This has made self-promotion inevitable for the ad agencies to survive and thrive in the market.

### SEGMENTATION & MARKETING STRATEGY

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Ad agencies are broadly segmented as 'general agencies' that cater to the needs of various types of clients and 'specialist agencies', which provide services to only a particular industry. Each category is further segmented depending on size and turnover-large, medium and small; area of operation-local, regional, national, international; target audience-consumer, industrial, trade, financial, retail, government; the type of media and methods of promotion used- print, radio, television, web, telephone (telemarketing), mail, door-to-door personal promotion etc.

Modern agencies choose their positioning between being a 'one-stop shop' and a specialized agency. A specialized agency concentrates on only one aspect of advertising. One-stop shops, known as full service agencies, provide the full range of services, like market research, creative work, developing the ad campaign, media planning etc. Having the entire campaign program at its disposal gives the agency better control and makes administration, coordination and supervision easier. However, only large and well-established agencies can afford the costs and workforce involved in providing a complete range of services. So, many agencies provide specialist individual services like market research, creation of the advertisement campaign, media management etc. Exhibit 28.4 explains the marketing strategy of Leo Burnett India.

Marketing of advertising services is more difficult and complex than marketing other services because of the credence quality of the advertising service. It is difficult to evaluate the service quality even after the service has been consumed by the customer. Therefore, great care should be taken in planning the marketing strategy of an ad agency. It should be done keeping in view the target groups. Many agencies have separate support staff, whose job is to seek and establish contacts with the potential clients, to participate in various social events and develop personal contacts with business people who the agency would like to do business with. Developing and maintaining personal contacts is considered the best way of marketing advertising services as the entire business depends on the customer's confidence in the capability of the agency. Many agencies use references of existing clients to get new clients. Advertising in major trade magazines like Advertising Age, B to B, Ad Critic etc., and memberships in professional associations provides good publicity to an agency and helps develop contacts.

Lately, agencies have been opting for promotion through the Internet because it is more interactive and millions of people can be reached by spending minimum amounts. It also has the technical advantage of being more creative and entertaining. According to the surveys, the majority of Net surfers as a consumer group are rich, young and well-qualified. It is much easier to reach them and impress them with innovative ideas through the Internet. Almost all the agencies have their own websites these days. However, updating the website regularly is very important to attract and maintain the interest of surfers.

### Exhibit 28.4

#### Marketing Strategy of Leo Burnett

Leo Burnett, formerly known as Chaitra Leo Burnett, is a leading advertising firm with an annual billing of over Rs.240 crores. The agency is ranked among the top 10 advertising agencies in India. Leo Burnett boasts of multinational clients like Coca-Cola, Fiat, Heinz, Kellogg, Pillsbury and Hallmark. Besides Indian heavyweights like Bajaj, Dabur, Airtel, BPL and Eveready are included in the Leo Burnett Portfolio. The agency has won over 36 major international awards, including the Cannes Lion in 2003.

The agency plans to achieve a Rs.500 crore billing by 2006 using a combination of three strategies. First, the addition of some of their key MNC clients who are entering India. Second, the addition of some more strong Indian brands to the agency's client roster based on its past success stories. Thirdly, they intend to accelerate their pace of investments in direct & digital communications. Investment to keep evolving the agency's range of services as the global technology, local market and international opportunity frontiers evolve is what the company believes would deliver success.

According to the Arvind Sharma, the CEO, "In an era of rapid media fragmentation, 360-degree capability for development of brands is critical. In addition to what we know as the brand agency in India, we have over 50 specialist units in the US, including direct, database, event, PR, street marketing, segment sizing, healthcare, business-to-business communication, web-consulting, Internet media." The agency intends to leverage these strengths to emerge successful in the market.

*Source: "CEO Speak," Interview with Mr. Arvind Sharma, Managing Director-Leo Burnett, December 4, 2003, hosted on <http://www.indiainfoline.com/bisc/arvd.html>*

There is a whole world of opportunities waiting to be tapped by the advertising industry. The growing exposure of customers to excellent ads and their changing attitudes have brought about a revolution in the field of advertising. For example, Indian advertising is going through a phase of 'rural or ethnic' touch. Such advertisements are expected to attract customer interest and gain recognition. The Coca-cola ads featuring a rustic Aamir Khan, the Fevicol ads, which show hilarious situations from the day-to-day life of an average Indian and the Center-shock ad with an old-time barber, are just a few examples.

Advertising is a 'creativity' based industry. An advertisement is expected to touch the chord of the viewer's heart gently. The emotions can be different -- humor, amusement, fear or fun -- but the advertisement should appeal to the viewer. Though the immediate customer of an advertising agency is the client or the advertiser, the ultimate customer is the end customer of the client. Therefore, it is important that an advertising agency design its services to appeal to the end customer. The ads of O&M for Hutch immediately appealed to the end customer and created a stir in the market. The success of this ad campaign must have brought more business from big clients for the company. This is the best way of marketing advertising services.

## MARKETING MIX

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Apart from being an integral part of the marketing mix of all other products/services, advertising also has its own marketing mix and striking the right balance between the different elements of the mix is very essential.

### Product

During the initial days, the product element of advertising services included buying 'space' in newspapers and magazines, and buying slots on radio and TV channels, apart from designing the ads and creating them. However, the changing times and



increasing expectations of customers have compelled the advertising agencies to add value to the product. The augmented product includes a variety of services like public relations, event management, street marketing, business-to-business communication, web consulting etc.

The service provided by ad agencies is intangible. However, the product contained in the final print in the newspapers and magazines; the jingles and commercials on radio and TV, provide a tangible effect. It is also not possible to measure the impact of an advertisement in quantitative terms. Therefore, it is not possible for advertisers to quantify the return on investment as far as advertising is concerned. In spite of effective advertising, the sales of a product/service might go down for some other reason. Similarly, sales can go up with no contribution from advertising.

The peculiarity of advertising service is that the effect created by it is short-lived. The agencies have to promote the same product/service in different ways at regular intervals to sustain the customers' interest and not lose mass appeal. Moreover, customers today are bombarded by advertisements of different products and brands. Therefore, keeping alive the creativity of the product element is very important to sustain the customer's interest.

### People

Advertising being a knowledge-based and creativity-based industry, the role of people in designing and marketing its services assumes greater importance. People operating the advertising industry can be categorized into four groups, viz. creative, marketing, administrative and client services experts.

The creative section consists of copywriters, artists, art directors and the people who develop the theme, plan the ad campaign and create the jingles and commercials. Marketing experts look after the media and market research, data collection and interpretation, and planning marketing strategies. Administrative and accounts experts look after recruitment and training of staff, day-to-day administrative matters, maintaining accounts of the agency, budget planning etc. Client services experts take care of customer interaction and consultation, maintaining media contacts, public relations etc.

Advertisement thrives on the development and implementation of unique and innovative ideas. Therefore, coordination among all the groups is essential for the success of an advertising campaign. In addition, retaining personnel is also very important, as the human resources in the industry are perceived to be spontaneous in their decisions.

### Place

Place also plays a role both in terms of the location and appearance of the office as well as the channels of distribution of advertising services. Easy accessibility should be complemented by an impressive ambiance. Most ad agencies have their corporate offices situated in metropolitan cities in trendy and commercial locations to be accessible and attractive to clients. Easy access facilitates discussions between the agency and the client as and when required without wasting much time on transport.

The scope of distribution channels or intermediaries is almost non-existent. This is basically because the industry is based on human intellect and talent as far as creativity and account management are concerned. The services of the creative section and client service (or account management) therefore cannot be rendered through intermediaries. It is only in the area of marketing that advertising agencies have scope for intermediaries. Agencies buy or reserve space in newspapers and slots on TV, radio and Internet, which they can sell to interested clients through intermediaries.

## **Services Marketing**

### **Process**

The process in an advertising firm starts with attracting new business by making presentations to prospective clients by client account managers. Once the client gives the assignment to the agency, discussions are held regarding the product/service to be advertised and the message of ad campaigns for the same. The information is passed on to the creative team to develop the basic theme and the idea of the advertisements. Market experts research the market for the current positioning of the product/service among the target audience and prepare the budget forecasts. The ideas and plans are presented to the client and his feedback is taken on different fronts. Then the ideas are translated into an ad campaign, the ads are designed and created, and the final copy write material/jingle/commercial is presented to the client. On his approval, media planning is taken up by buying the necessary space/air time and the ad campaign is launched.

However, the work of the agency does not end there. The effect of the campaign needs to be monitored closely and future campaigns should be planned accordingly. As has already been mentioned, the effect created by advertisements is very short-lived and the consumers need to be wooed by different novel ideas to hold their interest in the product/service.

### **Promotion**

Apart from promoting the client's business, ad agencies need to promote their own services too. However, the promotional tactics used by advertising agencies are different from the ones adopted by other industries. Not many agencies go for active/aggressive promotion, but resort to methods that are more discreet because agency service is highly personal and believed to be communicated best through personal contacts.

Another reason why agencies do not go for major campaigning is the supposedly low profits they earn on advertising campaigns. Ad agencies are reputed to charge hefty amounts, but the cost of ad campaigns is also very high and profit margins are allegedly low.

Most commonly used promotional methods are advertising in major newspapers and business magazines, yellow pages, telephone contacts, mail, personal talk etc. In the light of intense competition, undercutting and unpredictable change of preferences by the clients, ad agencies today are compelled to go in for active campaigning. Developing and maintaining good relations with the media and articles on successful commercials of the agency in newspapers and trade magazines also promote the image and services of an agency. Internet-based advertising has also caught the fancy of many advertising agencies, as it is a low-cost high-return mode of promotion.

### **Price**

There are two methods of compensation in the industry, a fixed percentage of the total ad campaign spend and a fixed amount of professional fee (commission), as agreed upon by the agency and the customer. A percentage of the ad campaign is the most commonly followed method. Generally, ad agencies are paid 15 percent of the cost of the campaign as the commission.

Lately, this practice has come under criticism because it induces the agency to go in for bigger budgets and inflate the cost of the campaigns, so that they are paid well. Therefore, there is a gradual shift towards payment of fixed fees instead of a percentage of the cost. A new practice, popularly known as PBR or pay by result, is also slowly gaining ground. In this method, an fee is paid in addition to the pre-fixed

fee, depending upon the success of the campaign in terms of level of awareness created, enhancement of the brand image etc. The industry is equally divided on which method is most ideal.

### Physical Evidence

Physical evidence is very important in advertising industry, owing to its creative element. The service is intangible and the client needs physical evidence to be assured of the agency's capabilities to deliver the goods. The interior decoration of the agency's office should be very creative to vouch for its creative skills and impress potential clients. Unless the agency can promote itself properly, the client will not have the confidence that it can promote his business.

Another extremely important aspect of physical evidence is the past performance of the agency. Successful ad campaigns of the agency and dummy ads created to impress clients can also be sources of physical evidence. Awards and certifications like Cannes Lion and Clio won by the agencies can also help reassure the client and reduce the perceived risk.

### ADVERTISING INDUSTRY IN INDIA

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Compared to the well-established ad agencies of the West, the Indian advertising industry is still in its infancy. Many agencies have not yet woken up to the need to market their services, though they are quite successful in promoting the clients' products and services. But the entry of MNCs, both in the form of ad agencies and prospective customers, into the Indian market added a new edge to competition and gave a new impetus to creativity. Even as the sophisticated western agencies posed a threat, the new brands of other industries that entered the Indian market needed a local touch, which offered new opportunities to the Indian agencies. Therefore, along with the competition, the Indian ad industry also grew and between the '90s and 2000s, it grew from about Rs.1500 crore to Rs.10,000 crore. The Indian ad industry is becoming globally competitive and presently accounts for 33 percent of total industry profit in the Asia-Pacific region and ranks seventh highest in terms of contribution to global profit. But it is to be noted that the top 15 agencies account for 80 percent of the billing and the remaining 20 percent is shared by 100-odd agencies, which indicates concentration of business. Further, 47 percent of the total Indian advertising is shared by global agencies.

Major problems faced by the Indian ad industry are: availability of human resources, positioning of the industry, size of the industry and compensation for services.

No industry can survive if its raw material is in short supply. The raw material of any knowledge-based industry is the people working in that organization. While the late entrants to the knowledge industry, like software industries, have been able to attract very good talent, the advertising industry, one of the veterans in this field, has been finding it difficult to attract good talent. Industry experts are of the opinion that the 15 percent reward system is based on the quantity, but not on the quality of the work done. In such a situation, most of the agencies see no need to employ people with superlative talent and creativity who expect hefty pay packets. Low profit margins make it difficult to pay handsome salaries to the staff, which is driving away creative people from the industry.

In view of global players entering the domestic arena, the local agencies are compelled to re-position themselves. Since the majority of the agencies are medium players, they can neither afford the costs nor compete with the well-established global agencies in providing full-services. Therefore, they have to re-position themselves by choosing one or two specialized areas so that they can focus on development of strategy, allocation of resources and identification of critical skills.

## Services Marketing

The size of the agency has become an issue as more than 80 percent of them are medium and small players and unable to compete with the large global players. Size is crucial if new capabilities are to be built, more value-added services provided, and the services have to be cost-effective. This compelled domestic agencies to join forces through acquisitions, mergers and joint ventures, development of networks, syndicates and consortiums.

Indian clients are adopting a hybrid approach towards remuneration. For example, while P&G and HLL pay fees, Bajaj Auto and Marico pay a commission to their respective agencies. The ad industry has not yet come to a consensus on which payment model is ideal in the Indian context. Many clients and agencies are of the opinion that payment of fees is a fairer system if used in combination with commission depending on the performance of the agency. Whatever be the method adopted, it should be able to cover the costs of the agency besides allowing a reasonable margin of profit. But the cutthroat competition in the industry and the consequent undercutting is making it difficult for agencies to negotiate for reasonable compensation.

Media planning also has become more complex than before- there are already 100-odd channels and a plethora of new channels are being launched every other day. With the rising cost of media and its ever-growing fragmentation, the efficiency and effectiveness of ad spending is constantly under scrutiny. A fresh perspective in all the areas is required for the Indian advertising industry to withstand competition from MNCs and make its presence felt at the international level.

### SECTION SUMMARY

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The advertising industry is dependent on the economy and business cycle. Advertising has invaded almost every sector of the industry today. To survive, the agencies need to differentiate their products/services from each other. Advertising helps an organization create awareness of its products/services and their benefits among the target segment. Advertising has gained importance in India, with increased globalization and competition.

Advertising originated thousands of years ago, though it evolved as a commercial industry only a few decades ago. The Industrial Revolution and the invention of radio and television played a catalytic role in the emergence of advertisement as a major service industry. The emergence of an educated middle class compelled the trading section to develop brand identities to set apart their products from those of competitors. More and more businessmen rely on advertising to create and maintain mass appeal for their products.

Many advertising agencies are moving towards becoming a 'one-stop communication solution' or 'full-service advertising agency' by diversifying into allied fields such as market research, packaging design, direct and test marketing, merchandising, event management, public relations, media planning, media buying etc.

The Advertising Industry is in its infancy in India. With the entry of MNCs and globalization, Indian ad agencies have been forced to reposition themselves while enjoying growth prospects. The major problems faced by the industry in India are availability of human resources, positioning of the industry, size of the industry and compensation for services.

# Retailing Industry

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**In this section we will discuss:**

- Characteristics of Retailing Industry
  - Marketing Segmentation
  - Marketing Strategy
  - Marketing Mix
  - Recent Trends
  - Retailing Industry in India
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Retailers play an important role in an economy, transferring goods from manufacturers to end-customers. They form the link between the manufacturers, wholesalers and other agents, and the customers. Of all these players, the retailer is the only person (or organization) who interacts with the customers and gets an opportunity to understand their needs and preferences. Therefore, manufacturers depend on point-of-sales information collected from retailers for taking various decisions related to their marketing strategies.

In India, the retailing industry is dominated by unorganized players, accounting for 94% of the industry turnover. The fragmented nature of the industry deprives customers of the benefits of the organized retail industry, like stabilized pricing, wide range of selection, and comfortable shopping. Many new players are entering the Indian retail industry, leading to the proliferation of branded players in the industry. In this chapter, we will discuss the characteristics, the marketing segmentation and strategy, the marketing mix and recent trends in the retailing industry, followed by a brief discussion of the Indian retail industry.

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## CHARACTERISTICS OF RETAILING INDUSTRY

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Before entering the retailing industry, entrepreneurs need to carefully look at the conditions prevailing in the industry. This will enable them to fix on an appropriate strategy for their entry into the market and formulate a winning strategy for gaining market share. The characteristics of the retail industry are discussed below:

### Entry and Exit Barriers

Compared to other service industries like telecom, the retailing industry is easy to enter and exit. To establish a retail organization, all one needs to have is an adequate amount of financial resources, ability to forecast demand, and an effective inventory management system. However, a new entrant has to compete with established players in the market. He can effectively do so and create a place for himself in the market by offering conveniences to the customer and high quality and efficiency of service.

### Customers

Because of the growth in the economies of countries worldwide, the spending power of customers has increased tremendously over the past few years. The average earning age has also come down in many developing countries like India and China, as more

## **Services Marketing**

jobs are being created. Even the dependent young children are able to spend more on goods and services when compared to the situation six to seven years back. Even though consumers have more money at their disposal, they are very particular about the way they spend it. They want value for the money they spend. They look for wider range, convenience, spacious stores and friendly employees who can assist them in making the right choice.

### **Suppliers**

Because many retail stores compete on price, suppliers are compelled to deliver products at thin margins. Therefore, they expect the stores to buy large volumes for them to maintain their profitability. If the stores fail to order the minimum quantity of a product that is necessary for suppliers to maintain their margins, the latter may choose to discontinue delivery of that product. In the case of stores that serve high-end customers, suppliers are expected to deliver quality products. To deliver the desired quality, suppliers charge a premium. Some suppliers of branded products expect their products to be displayed in priority locations in the store, putting pressure on the retailers. They offer minimum scope for bargaining and fix the maximum retail price at which the retailer can sell them. They do not allow retailers to reduce the price below the retail price as it may dilute their brand. Generally, the price at which they deliver their products to the retailer is fixed. Only a few retailers like Wal-Mart are in a position to bargain with branded suppliers for bringing down the price.

### **Competition**

There is intense competition in the retail industry. Players in the unorganized sector give tough competition to the organized one. Because of easy accessibility, many customers prefer to buy from stores in their vicinity. Some customers believe that organized players charge unjustifiably high prices for products and services, which can be purchased at a lower price from unorganized players. Therefore, they avoid visiting branded retail stores. In India, stores like Giant Hyper Market are attempting to remove such fears from customers' minds by offering various products at low prices. In fact, large retailers can afford to lower the retail price for the customer, owing to large sales volumes. Therefore, customers in most developed and developing countries prefer to buy from retailers.

Competition within the industry is intense in most developed countries. However, competition is yet to pick up in India.

## **MARKETING SEGMENTATION**

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Retailers need to divide the market into segments and choose an appropriate one to serve. The market for the retail industry can be divided into segments on the basis of geography, customer demographics and products offered by the retailer.

### **Geography**

Retailers can be located in metropolitan cities, cities, towns, and other urban areas, suburban areas and rural areas. Branded retailers limit themselves to urban and suburban areas. Unorganized players are more widespread. They serve urban, suburban and rural areas.

### **Demographics**

Retailers can target customers based on age, gender, income, social class etc. For example, retailers of readymade garments have separate stores for children, women and men, and target higher-income group and lower-income group customers separately. Shoppers stop, Lifestyle and West Side are examples of retailers who serve the higher income group.

### Psychographics

Retailers can target people based on their lifestyle and personality. Some people want to look different and make a special impression on others through their appearance. They want to wear clothes that are unusual and reflect their lifestyle. Designer stores serve the needs of these people.

Retailers can also target customers shopping for special occasions, and on the basis of benefits they expect from products and services. For example, gifts and novelties stores serve people shopping for certain occasions like birthdays and other anniversaries.

Based on the types of products offered, retailer stores can be divided into the following types:

**Specialty stores:** In these stores, only certain types of products are offered. For example, 'The Loft' is the largest retail store in India that deals in footwear while 'Shades' operates in the retail business of eyewear and opticals (both stores are located in Hyderabad).

**One-stop shops:** These stores offer a wide variety of products under one roof so as to offer convenience to customers. For example, 'Giant Hyper Market' offers stationery, electrical and electronic goods, groceries, vegetables, processed food, CDs, garments – all under one roof.

**Category killers:** They offer an exhaustive range of products available within a single product category. For example, an online store called e-toys offers an exhaustive range of toys to customers.

### MARKETING STRATEGY

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Retailers need to formulate appropriate marketing strategies to be able to compete with competitors as well as attract new customers and retain the existing ones. The marketing strategy of a retailer should define his target market, choice of merchandise, assortments, number of stores, their location, design, promotion methods etc. Prior to framing a strategy, retailers need to evaluate the marketing environment in which they are planning to set up a store and identify the possible threats and opportunities. The factors that retailers need to evaluate include economic, legal, technological and competitive conditions in the market.

**Economic conditions:** The economic system of a country influences the business of retailers. A capitalist economy is highly cohesive for growth of the retail business while a socialist economy is not. In a socialist economy, the government provides most of the essential commodities to people at subsidized rates. The GDP, rate of inflation, rate of (un)employment, tax rates and interest rates prevailing in a country determine the purchasing power of customers. In India, due to reforms introduced in the 1990's, like liberalization and privatization of economy and withdrawal of subsidies on various commodities, including rice, sugar, cooking oil etc. the retail business has gained momentum.

**Legal conditions:** In some countries, industry status is not given to retailing. This can make it difficult for new players planning to set up a big retail venture. They may not be able to raise adequate funds for the venture because investors fear losing money on unproved business models. Some countries do not allow foreign direct investment (FDI) in retail industry in order to protect domestic businesses. In India, in the late 1990's, FDI was banned in the retail industry. However, during the period when FDI was allowed, some MNCs like Nanz and the Hong Kong-based Dairy Farm International (DFI) entered India. DFI entered into a joint venture with the RPG Group to set up Food World. As the government allows franchising and licensing in the industry, Marks & Spencer chose the latter route to enter India.

## Services Marketing

The other problem faced by retailers in setting up stores is property-related regulations imposed by governments. In India, high real estate prices, lease and rental prices and complexities involved in property transfer create hurdles for retail chains in rapid expansion. Also, the taxes levied by various states raise the cost of sourcing quality material from the best suppliers across the country.

**Technical conditions:** Technology has changed the way retail chains conduct their business. Computerized billing and bar-code scanners enable retailers improve the speed and quality of customer service. Database management systems, management information systems and advanced inventory management solutions enable retailers to detect appropriate re-order levels and avoid stock-out problems. Technology has also enabled retailers to connect their inventory management systems with suppliers' systems so that the latter receives alerts about the depleting stock levels and send fresh stock without having to wait for a formal request for the same.

**Competitive conditions:** There is intense competition in the retail industry within the organized players as well as between organized and unorganized players. More and more new players are entering the sector, thus intensifying the competition. In this industry, players should respond swiftly to moves made by competitors to attract customers, lest they lose out in the game.

Apart from evaluating the external environment for opportunities and threats posed by the above factors, retailers also need to evaluate their own strengths and weaknesses. They should then design strategies to leverage strengths to exploit the opportunities and overcome threats and strive to reduce weaknesses. Managements need to design a marketing mix that will enable the organization to reach its long-term goals.

## MARKETING MIX

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In the retail industry, effective marketing mix holds the to success for a player. The marketing mix determines the type of customers who visit the store and shop there. The marketing mix that should be adopted by retailers to satisfy target customers includes the following:

### Product/Merchandise

In retail stores, products include the merchandise mix offered. Some retail stores offer multiple products within a single store while some offer only one product in one store. Some exclusive stores have only one product category like shoes, clothes or watches of a particular brand, while some have a range of products of the same brand. For example, Titan offers only watches and clocks while Nike stores offer shoes, hats, bags, balls and other sports accessories.

Some stores sell a wide variety of product categories under one roof. In such cases, it becomes difficult for the retailer to offer a wide range of products within a single category. However, some online stores like Amazon.com are able to offer a large variety in each product category, like books, CDs, toys, etc. Some stores, like Shoppers Stop attempt to be one-stop shops for a wide variety of customer needs. Stores like Crossword can be categorized as specialty stores that offer only books. Music World can be considered a category killer with an exhaustive collection of cassettes and CDs.

Whatever be the choice of merchandising mix, effective management of merchandise is essential to satisfy the end customer. Stores that offer several categories of products should keep track of the movement of items from each category and identify the best and worst performing categories. The poor performing categories should be disposed of or steps taken to improve their performance.



### Price

To determine price, retailers need to consider various factors, like type of product, demand, costs involved in procuring it and the intensity of competition. If a product is a fashionable or trendy, it can be priced higher when it is newly introduced in the market and as the fashion fades, the price needs to be reduced to clear the stock. If a product is unique (when there is no competition in the product category) and customers are willing to pay a high price to buy it, then the retailer can charge a premium for it. The quality of the product also needs to be considered to determine its price. Superior quality products can be priced high. Many textile stores dispose of garments with slight damage at cheaper rates. If there is a huge gap between the demand and supply of a particular product, the retailer can charge a premium. If there is intense competition to attract customers for a particular product, the retailer may need to lower the price to increase sales volume, but he should ensure that the costs incurred on the product are recovered.

Some stores offer daily discounts on their products while some offer discount sales periodically.

### Place

A retailer, especially one who wants to set up a chain of stores in a country, needs to identify the market that offers high potential for sales first (market area) and then locate the exact site where the store is to be set up to conduct its trade (trade area). The retailer should then study the demographics, economic factors, cultural factors, infrastructure and intensity of competition in various markets to identify the appropriate market area. Within that market, he has to locate the site depending on the housing patterns, type of store he wants to open, the size of the store, merchandise offered in it, location of competitors in the area and such other factors. For example, Shoppers Stop and Lifestyle are located in prime localities in Hyderabad to be easily accessible to high-end customers. Because they charge premium prices from customers, they can afford the costs of operating stores in busy localities. Giant, which offers products at discount rates, is located in a comparatively distant area to cut down the costs of operating. This way, the stores will be able to sustain themselves even with thin margins.

### Promotion

Retailers need to constantly remind customers of the benefits of shopping at their stores. They achieve this by advertising in different media, announcing special offers from time to time, giving discount coupons to loyal customers and conducting contests for shoppers and distributing prizes to winners. They also sponsor events like musical shows to increase the visibility of their brand. However, retailers need to be careful in allocating budgets for promotion because usually their margins are not so high that they can afford heavy spending on promotions. Therefore, many retailers depend on in-store promotion. By offering high quality customer service they can also gain word-of-mouth publicity for their stores. Branded stores like Lifestyle and Food World ensure that the merchandise on display is defect-free. They seek to replace defective pieces before customers pick them up. Service recovery is very prompt in case a defective item is delivered.

### Physical Evidence

Physical evidence includes all the amenities offered at a retail store, its design, layout, atmospherics, etc. People take cues from physical evidence available at the store to estimate the quality of service offered by it. Hence retailers need to take special care

## Services Marketing

about creating appropriate physical evidence. Both the external and internal appearance of the store should be impressive. The location of the store, its architectural design, position of sign boards, and the window displays determine the image of the retailer in the customer's mind. Inside the store, the amount of space allotted for free movement of the customer, the way in which merchandise is arranged, the arrangement of fixtures that are in tune with the store's image, and atmospherics (including lighting, colors, music and fragrance) contribute to enhancement of the image of the store. For example, Shoppers' Stop uses compact fluorescent lamps (CFL), to highlight its merchandise display areas. As CFLs provide high quality light, they enable the customers to have a genuine impression of the merchandise.

In some stores, special settings at the entrance are arranged to reflect the festive season or special occasions. For example, in India, during Diwali, the whole setting may wear a festive and colorful look.

## People

Retailers need to offer efficient customer service prior to transaction, during transaction and even after transaction. For example, service personnel should help customers locate the merchandise they desire to purchase, answer their queries about the quality and durability, assist them in selecting the right piece of merchandise and then guide them to other departments for future purchases, help them carry their purchases to the bill counter and assist them in paying the bill. Sometimes, the service personnel may have to arrange for home delivery of purchased goods.

Retailers should select people with an attitude to help others as service personnel. The personnel should then be trained in flexible and adaptive selling techniques. Sales people should be able to change their sales presentation according to the customer's response. They should try to understand the prospective customer's needs, reduce their perceived risk by assuring them of the quality of merchandise and warranty offered etc. They may have to demonstrate the usage of the product in some cases, answer any queries that the customer has, encourage him to operate the product / machine himself and explain the benefits of the product. If the customer still has doubts, the salesperson should try to identify the customer's problem and suggest a solution to it. Throughout the conversation, the sales person should persuade the customer softly and politely so that the customer does not perceive it as an aggressive hard sell.

To realize sales targets, retailers should have dedicated, enthusiastic and highly customer-oriented sales people.

## Process

Management of retail stores is a complex process. The process may be split up into the following tasks – strategic management tasks and merchandise management/operations. Strategic management tasks include identifying the target market, determining the store design and layout and formulating marketing strategy. Merchandise management includes purchasing merchandise, inventory management and price management. Purchasing managers should identify vendors for different merchandise, evaluate them in terms of quality and price of merchandise offered by them, select the best, and negotiate with them further for improvement in price and quality and finally place orders. Inventory managers need to track the movement of merchandise, predict demand based on past experience and trends, develop merchandise budget plans, get top management approval and allocate the appropriate quantity of merchandise to each store (of the retail chain).

Operations include distributing merchandise to different stores. Retail stores should have a warehouse at a strategic location. The nearest store (usually head office) receives the merchandise from the warehouse periodically and the products are marked and labeled. Merchandise is then shipped to individual stores. In some cases, where merchandise is not satisfactory, it is shipped back to vendors. These operations need to be conducted cost effectively by retailers to maximize their profits. Apart from this, retailers need to manage their promotion schemes and establish financial controls.

### RECENT TRENDS

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The major factors that have brought about changes in the retail industry are -- advancement in information technology, increase in spending power of customers and the efforts of retailers in various countries to expand overseas. Let us discuss the influence of technology and globalization on the retail industry.

#### Technology

Advances in technology have revolutionized the entire retail management system. The information crucial to decision making is easily available to retail managers. For example, Point-of-Sales (POS) terminals enable managers to take proactive decisions and stay competitive by providing data related to daily sales of various products. If the data indicates that a particular item is moving fast, more items can be ordered before it runs out of stock. If a particular item is not moving, orders for further items can be stopped, thus preventing a pile up of inventory.

The Retail Information System (RIS) helps retailers identify problems in the system by continuously monitoring customer behavior, marketing channels, competitors' strategies, social, legal and economic changes, and changes in company's financial position. RIS has especially improved the efficiency of the logistics system of retailers. Logistics include inbound and outbound movement of goods from retail stores. The logistics functions are generally carried out by distribution centers of retail stores (Refer Exhibit 28.5). The activities include inbound transportation of merchandise from the vendor, receiving and checking of merchandise, storing and cross-docking, labeling, filling orders, and managing outbound transportation.

Even order filling is simplified with the RIS. Each POS terminal records every sale that took place at the store. The staff/store manager conveys the information to the distribution center through an inter-connected computer system. The computer then generates order information, specifying the amount of different merchandise required by different stores.

#### Globalization

In the past, most retailers found it difficult to expand their operations to overseas countries. Markets were characterized by distinct local preferences. This meant that retailers had to customize merchandise to suit local requirements. Customization prevents retailers from reaping benefits of global economies of scale. Apart from this, some countries imposed restrictions on shopping hours and had complex labor laws. Some countries imposed unfavorable tariff and tax structures and limits on foreign equity holding. Shortage of land and trained salespeople were some other problems faced by retailers. Therefore, retailers from developed countries like Wal-Mart (headquartered in the US) initially entered adjoining trade areas like the European Community and Canada.

In the late 1990's, many countries began to remove restrictions on movement of foreign capital and trade. This offered opportunities for retailers to expand overseas. Many retailers from developed countries, which expanded nationally, grabbed this

### **Exhibit 28.5** **Logistics System at Amazon**

The logistics system adopted by Amazon, the leading online retailer in the world, is described below:

As soon as a customer placed an order, a computer assigned it to one of Amazon's distribution centers. At the facility, red lights indicated which items had been ordered. Workers moved from bulb to bulb, taking out the items from the shelves and pressing a button to reset the light. Each item went into a large green crate that contained the orders of many customers. When full, the crates were placed on conveyor belts. All the crates arrived at a central point, where bar codes were matched with order numbers to determine who would receive which item. The customer's ordered items were placed in the cardboard box. For gift items, special wrappers were used. About 60 percent of the orders were shipped through the United States Postal Service and the remaining through United Parcel Service. Both these organizations maintained facilities close to Amazon's warehouses. Amazon had developed customized information systems and trained personnel to source out-of-print books and other hard-to-find products. The proprietary software automatically sent orders which the company could not fulfill, to vendors and special orders group for speedy delivery.

*Source: "Amazon," Management of E-business Case Studies on Leading Companies, Transworld University.*

opportunity. For example, the US based Wal-Mart operates in Argentina, Brazil, Canada, Germany, Mexico, Puerto Rico, China and Korea. Global operations help retailers learn new ideas from international markets and apply them to domestic operations and enhance their business. Retailers are now also using the route of joint ventures to enter foreign markets. Asian countries like China are attractive markets for global retailers because of their huge population, impressive growth rate of GDP and increasing purchasing power of customers. Existing global retailers plan to expand their presence while those that do not have a presence plan to establish their operations there.

Globalization has been made easier with technology. The constant communication that is required among individual stores, distribution centers and suppliers for effective coordination, is made possible through RIS. Some global retailers are entering into strategic alliances with suppliers to exchange information related to inventory in real time through 'quick response systems'. This enables retailers to cut down their inventory-holding systems as the supplier sends inventories exactly when needed and in the quantity that is required at that time.

However, global retailers who have invested heavily in infrastructure are facing intense competition from online stores like Amazon.com, K-mart, Office Depot and Toys R U. Some retailers like Wal-Mart attempted to compete with them by launching their own online operations. According to a survey conducted by Jupiter Communications in December 1999<sup>1</sup>, key factors that influence customer satisfaction in the retail industry include customer service, easy returns, better product information, product selection/availability, price and ease of use. Customers preferred to buy online because e-tailers offered most of these factors. Hence, by giving special attention to these factors, the traditional retail industry can withstand competition from the online retail industry.

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<sup>1</sup> Jupiter communications survey, Interactive Week, April 28, 2000.

**Exhibit 28. 6**

**Pantaloons – an Entrepreneur's Success Story**

In 1997, Kishore Biyani was a manufacturer. He manufactured two fabric brands called John Miller and Bare. The quality of the fabric was good and the pricing was reasonable. But the high distribution costs did not allow him to sell the brands profitably. Therefore, he decided to open his own stores to market them. He decided to open his first Pantaloons store in Kolkata. Biyani expected the store to earn revenue of about Rs. 7 crore. But the store earned Rs. 10 crore. Encouraged by its success, Biyani set up several stores across the country. Unlike many stores that target families, Pantaloons targets the youth. Biyani wants Pantaloons to be the Indian version of Zara, a leading fashion retailer in Spain.

Biyani also owns Big Bazaar and Food Bazaar. Big Bazaar offers apparel, grocery and food items and is based on the low-pricing strategy. Biyani contacted Arvind Mills and negotiated with them to supply 100,000 units of Ruf-n-Tuf per month to Big Bazaar at Rs. 299 each. This is the lowest price at which a branded jeans is available in the market. He made a similar deal for T-shirts. Food Bazaar offers a variety of food items under the same roof. Biyani wants to offer fresh food products at low price to customers. In Ahmedabad, he set up dairy and flour mills to achieve this end. Food Bazaar offers large ketchup bottles for Rs. 38 each while the industry average is Rs. 58.

Some years earlier, Biyani was written off by industry analysts, but he proved himself by leading his business model to the top position. Pantaloons recorded a turnover of Rs. 650 crores in 2003-04 and estimates put the turnover at Rs. 1300 crore in 2004-05. The figures are the highest in the Indian retail industry. Biyani, who has been controlling the entire business himself till now, has begun delegating responsibilities to professional managers and hopes that this will further enhance the growth of business.

*Adapted from M. Rajshekhar "The Man They Wrote Off," Business World, 14 June 2004.*

## RETAILING INDUSTRY IN INDIA

It was only in late the 1980's that organized retailing started in India. Till 1990, the organized retailing industry was dominated by manufacturer-owned retail stores like Raymonds, Grasim, S Kumars and Bombay Dyeing. With the liberalization of Indian economy in 1990, multi-national players like Nanz entered the Indian retailing industry. Encouraged by the response to branded retail stores, Indian entrepreneurs set up retail chains like Viveks, Nilgiris and Cotton World. Now the retailing industry is flooded with large stores, shopping malls and multiplexes. Shoppers' Stop, Lifestyle, West Side, Pantaloons, Giant, Food World, Crossword and Big Bazaar are some of the big names in the organized retailing industry.

The retail customer in 21<sup>st</sup> century is different from the retail customer in the 1980's and 90's. Retail strategies need to be continuously assessed in view of changing demographics and new buying patterns. There is an increase in the number of small households with working couples. Their children, including teenagers, have high purchasing power. With the emergence of call centers which employ young graduates, many of them stay in cities away from parents. Thus, the purchasing power of the young has increased considerably.

Retail stores are targeting these customers with trendy clothes, shoes and other fashionable goods. The marketing efforts of retailers have also brought awareness among customers. They take pride in buying from branded retailers rather than from ordinary retailers.

The increasing number of Indians working in multinational companies, frequent trips abroad, and, to a certain extent, the media, have all played their part in increasing brand consciousness among customers. They equate brand with quality, prestige and

## Services Marketing

status. Hence, retailers should strive to maintain superior quality products and enhance their brand image and store image to retain customers' confidence and win their loyalty.

In India, the retailing industry is still in the growth phase, with lot of untapped potential. Existing players are expanding their operations while new players are entering the industry to tap the potential. According to some estimates, the contribution of the organized retail sector is expected to increase from 6% in 2000 to 20% in 2005<sup>2</sup>. This sets the stage for intense competition among retail players. In the future, this may lead to mergers and acquisitions and consolidation to stabilize the industry. In 2004, Pantaloons seems to emerge the leader among retail stores in the country (Refer Exhibit 28.6).

### SECTION SUMMARY

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The retail industry is characterized by low entry and exit barriers, demanding customers, suppliers negotiating for better margins and intense competition. The market for retail industry can be divided into segments based on geography, demographics and psychographics. Based on types of products offered, the stores can be divided into specialty stores, one-stop shops and category killers.

Retailers need to formulate their marketing strategy after analyzing their strengths and weaknesses and identifying opportunities and threats posed by the external environment. Advancements in information system have revolutionized the way retailers conduct their business. Many retailers are entering overseas markets, especially in developing countries, because of the increasing purchasing power of customers there and the easing of government regulations.

The share of the organized sector in the Indian retail industry is gradually increasing and competition is intensifying among the players.

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<sup>2</sup> Suma Nair, "Retail World," Indiainfoline, 20 September 2001.

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## **Chapter 29**

# **Marketing of Education Services**

**In this chapter we will discuss:**

- Classification of Education Services
- Market for Educational Services
- Characteristics of Education Services and Implications for Marketing
- Education and Strategic Marketing
- Marketing Mix and Education Service
- Technology and its Role in Education
- Education in India



In the past, the marketing of education in India had little significance. This was because of three reasons. The first was that the demand far exceeded the supply of service. Second, it was the people's perception that it was the duty of the government to provide this service to the people. Last, but not the least, since the Indian economy was more dependent on agriculture, people ignored the importance of education. The situation still remains the same in most poor and lower middle-class families where earning their daily bread takes priority over education.

However, over the years, radical changes have been taking place in the arena of educational services. The reasons for this transformation are plenty. The growing awareness of the importance of education among the masses, corporatization of education, innovations in technology and privatization of educational services have led to dramatic changes in the field.

Gone are the days when students joined the nearby school or college and decided to earn a bachelor's degree to secure jobs. Today's youth are keen on having a good career and making a mark. The importance of having a good education and building a career is the dream of most youngsters. Their parents also share their dreams. Also, they have so many options to choose from, the subsidized and government owned institutions, private as well as foreign educational institutions (schools, colleges, universities). These changed perceptions and the changing market scenario have provided the required boost for the otherwise neglected area of the marketing of education. This has forced the education providers to take a re-look at their service offering, and redesign the service so as to be competitive in the marketplace to earn more revenue and expand their market.

### **CLASSIFICATION OF EDUCATION SERVICES**

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Most education services are targeted at the consumer segment, though education services are offered to corporate customers too. This can also be a basis for classification of education services. Education can basically be classified into primary, secondary and higher education based on the level of knowledge imparted. Another classification is made based on buyers' intentions and motives in using the service. For instance, the motive in pursuing a course in management could be either to get a job or to gain knowledge. Though most service seekers pursue this course for the sake of getting a job, there is definitely a segment of people whose motive is to gain knowledge.

Services can also be classified into people based service and equipment based service. Education is a people based service, where the role of the instructor is invaluable and his interaction with the student, inevitable. Even though modern systems make use of equipment like LCDs, communication systems like the Internet and computer systems, the role of the teacher cannot be ignored. Some authors classify services into low contact and high contact services, based on the interaction between the service provider and the service seeker. Education is a high contact service in its traditional form. However, the interaction is becoming insignificant with the introduction of open and distance learning systems, multi-media based tutorials and online training. Management educational programs in specialized areas like insurance, banking and finance by ICFAI University and technology programs by Carnegie Mellon University through the distance mode are examples of low contact service. And if we classify services based on the tangibility attribute, education is a pure service with a high and dominant intangible content.

### MARKET FOR EDUCATIONAL SERVICE

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Basically the entire market of education services can be divided into:

- Primary Education
- Secondary education
- Higher Education
- Education for people with special needs
- Corporate education
- Adult Education
- Vocational education
- Physical education
- Spiritual education (Yoga. etc)
- Professional education

### CHARACTERISTICS OF EDUCATION SERVICES AND IMPLICATIONS FOR MARKETING

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#### Intangibility

The biggest challenge for marketers of education comes in the form of the intangibility of the service. The students and/or their parents evaluate the service offerings by analyzing the course contents, buildings and other infrastructure facilities. Faculty experience, career prospects for the course, activities conducted by the institute, industry-institute interface and placement assistance on completion of the course are analyzed for vocational, secondary and higher educational services. Since most of the attributes are not visible, the marketers attempt to tangibilize the offering to gain a competitive advantage and penetrate the market. For instance, BITS Pilani is synonymous with quality in technology education. Harvard Business School is known all over the world for its management education and is ranked first over the world. In India, NAAC (National Accreditation Council – an apex body of the University Grants Commission for academic audit and standards) gives statuses like 4 star and 5 star to institutes which meet the standards and set new benchmarks in education. Some institutes also earn the ISO9001:2000 certification. By earning these certifications, education service providers can tangibilize their offerings.

The implications for marketers, which emanate from this characteristic of intangibility, are many. Education service strategies can be copied by competitors quite easily. Teaching methodologies, syllabi, programs offered etc., can all be copied. For example, if the Indian School of Business (ISB) offers a course on “Global Strategic Management”, a small MBA institute can also come up with a similar course. Competent faculty members can be lured away by competitors. So strategies should be developed to retain the faculty as this service is people centric. Also, systems should be developed so that the faculty shares knowledge and the knowledge is retained within the system even if some members leave. Augmented products can be offered along with the core service to tangibilize it. For instance, most schools offer well-equipped libraries and laboratories. Some schools these days offer swimming pools and gyms to enhance the physical education experience of the students. In this way, they augment their service and tangibilize their commitment to qualitative education.

### Inseparability

In the case of education services in the conventional form, the service production, delivery and service consumption are inseparable. It means that there is no role for intermediaries in the process. As the instructor produces and delivers the service, the student consumes it simultaneously. This necessarily limits the scale of operations.

Basically, the customer is required to be at the place of the service provider or the service provider is required to go to the place of the customer for the service to be delivered. However, modern methods of education like web-based interactive training, video conferencing and correspondence education have overcome this limitation of education services. In these methods, there is no need for direct interaction between the faculty and the student. And with user friendly study material and audio visual aids, educational institutions are separating the faculty from the service to increase the scope of their operations.

The customer becomes a co-producer at the time of service delivery and this also impacts the delivery. For example, the instructor would deliver the same lecture differently to a set of intelligent and enthusiastic students than he would to a dull and uninterested lot. Therefore, the role of the customer also becomes important in service production and delivery and cannot be discounted.

### Heterogeneity

Standardization of the service offering is not possible in the case of the education service. The quality of service delivery varies from customer to customer and from time to time. This is because of the importance of the service personnel's role in producing and delivering the service. For instance, one instructor's way of teaching may be different from that of another working within the same institution. Or, the same instructor may deliver a lecture differently at two different times. The service providers have to ensure that this variability is better used to match the varying needs of customers. For instance, if an instructor is free and better oriented to deliver lectures in the evenings, he can be employed to teach the part-time or evening-class students.

### Perishability

The education service is highly perishable like any other service and this feature results in certain implications for marketers. In conventional educational institutions, the production and consumption of education services has to take place simultaneously. This disables the option of inventorying the service in case of variations in demand. The unutilized service cannot be stored. For instance, if some students who have enrolled for a course do not turn up on a particular day, the service meant for these students cannot be stored. Similarly, if student enrolments are fewer than the seats available, the underutilized service cannot be stored for the next month or next year. This results in greater emphasis on effective management and marketing of the education service.

Another aspect of education services that gets affected is the demand for faculty resources. The problem of overstaffing or understaffing is common in institutions at one time or the other. This feature implies that the marketers maintain a good match between demand and supply for educational services. However, this phenomenon is gradually changing with the introduction of distance training and technological inputs, as discussed earlier.

## EDUCATION AND STRATEGIC MARKETING

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While framing a marketing strategy, marketers are required to ensure that the strategy takes into consideration organizational needs and environmental factors. The special features of education service too have a significant influence on framing a suitable marketing strategy.

The different steps involved in the marketing of educational services are discussed below.

### 1. Analyzing Market Opportunities Based on the Marketing Goals

The first task of a service marketer is to identify the opportunities in the market. Through reliable marketing research and information systems, it can identify buyer wants and expectations and assess the market size. Depending on the attractiveness of the market, the service provider can design and offer services to the identified market segment or the general market. For example, NIIT which is a pioneer in the field of IT education and training identified a great potential in the IT sector and entered the market. This was in tune with the marketing goals of the company, which wanted to usher in IT education and proliferate the use of computers in India. Exhibit 29.1 explains the opportunities in the field of education and training for the physically and mentally challenged.

#### Exhibit 29.1

##### Education for the Challenged- An Area Untapped by Marketers?

Special Education Needs (SEN) is the term generally used to refer to the education of children with disabilities. There are government and voluntary organizations to cater to the educational needs of the challenged people. Institutes like National Institute of Mental Health (NIMH), National Institute of Orthopaedically Handicapped (NIOH) and National Institute of Visually Handicapped (NIVH) established by the Government of India provide these special educational services. There are non governmental and charity organizations like Vascular Disease Foundation (VDF), Spastic Society of India etc., catering to the educational needs of physically, mentally and behaviorally challenged people.

In Britain, the proportion of such children has been increasing over the years. In Britain and the US, there are thousands of institutions catering to their educational needs. Innovative curriculums and pedagogy are framed in various US and British schools. In India also, there are special instruments and systems developed for the handicapped. One such system is I-Learn, an educational system for the disabled who cannot use the computer keyboard. It has been developed by Professor J. R. Isaac, advisor to NIIT Ltd. and his team who got 1998 National Award for the Best Technological Invention for the Welfare of the Disabled.

In India, there are institutions like NIIT too, which use special methods and tools for challenged people. But such institutes are very few in number. According to a WHO figure, 10 per cent of the Indian population is physically challenged; the Spastic Society quotes 70 million people with disabilities, out of whom one in three are children and less than one per cent have access to education. A report from the Rehabilitation Council of India estimates that there are 2,500 schools for 100,000 physically challenged children. When compared to the developed countries, which have thousands of schools for five million people, India has very few schools catering to these people with special needs. Could we say then that education for people with special needs is an area untapped by marketers?

*Adapted from <http://cities.expressindia.com> and The Asian Age, October 23, 2003, p. 4*

### **2. Determining Target Customers and Identifying Their Needs and Preferences**

Identifying the target customer group is the next step for the marketer. The marketer can, in fact, choose to target a specific segment or cater to the general market. For example, when a service provider wants to enter the education market, he needs to identify whether he's going to cater to the needs of customers of primary education or secondary education or higher or professional education. This also helps him to make the right use of the marketing mix. For example, advertising a course of physiotherapy in the 'Chip', a computer magazine, is of little use. To reach the target customer, and offer the service to him, it is essential to first identify him.

To design and offer a service that suits customers' needs, it is important for marketers to first identify their needs and preferences. Customers of an educational service might have varying needs and preferences. They might want a mere certification or real knowledge or knowledge along with assured placement. For example, most MBA institutes realize that the students want assured placement after the completion of the course and, therefore, give a promise to the effect to attract more and better talent. Exhibit 29.2 explains the concept of corporate training, targeted at executives.

### **3. Evaluation of Competitors' Strategies**

In this globalized era, no institution can afford to ignore competitors' strategies. The service provider has to keep a continuous watch on competitors' strategies and redesign his own accordingly from time to time. For example, when an engineering/science college stresses more on its excellent laboratory facilities and attracts students, a competitor has to develop a strategy to counter that and perhaps stress on industrial training and exposure to attract the target segment.

### **4. Positioning a Service for the Target Segment**

Once the marketer has identified the target segment after analyzing the market opportunities and assessed the competition, the next step is to position the service for the identified market segment. Due to their intangibility, positioning becomes a little difficult for educational services. However, building a strong differentiation in the service offering can help the marketer position his service uniquely in the customers' minds.

### **5. Continuous evaluation**

Most education services, especially those in the Indian scenario, are job oriented. Due to the dynamic nature of the industry, the market for education services is also quite dynamic. So, marketers have to continually evaluate the changes in the market and revisit their strategies from time to time for their relevance and effectiveness. For example, there was a mad rush for engineering education during the IT boom. A lot of engineering colleges were opened across the state of Andhra Pradesh during that period. When the IT market collapsed and there was a paucity of jobs for engineers in the IT field, engineering education suddenly lost its sheen. Most engineering colleges in the state now cannot even fill up all their seats and are going through tough times.

Another reason for marketers to continuously evaluate their strategies is the changing demography and the changing preferences of people. For example, the Indian BPO industry started growing since 2000 and there was a sudden rush for training in spoken English. Similarly, today's youth is looking at unconventional areas like hotel management, designing, etc., which were not so attractive a few years ago. Therefore, marketers need to redefine their strategies to suit the market demands.

### Exhibit 29.2

#### Corporate Training: the New Way to Increase Volumes

Skill shortages are placing a greater importance than ever on the training and retention of staff. One phenomenon of the late 1990s is the rise of the corporate university. By the early 1980s, there were 400 corporate universities in the US. But 1990s has that number increased sharply to 1600. Huge multinational companies, for example, ST Microelectronics, Dell Computer and Motorola are offering training to their corporate customers in Europe. The training is offered either at the site of the customer or else the employees come to the trainer.

In India also, the segment of corporate training is poised for a huge growth. Sensing the opportunity and to leverage their reputation in providing training to the consumer masses, many educational service providers like Aptech, Xansa, CMC and Tata Infotech joined the corporate training bandwagon. Aptech, one of the leading training providers in software and multimedia, started providing corporate training under its international division. It focused mainly on IT and non-IT Fortune 500 companies in the developed countries such as the USA, the UK, Dubai, Germany, the Netherlands, Singapore, Hong Kong, Australia, the Philippines and Switzerland. Training programs were conducted onsite or at any of the training centers in these countries. It introduced courses in the latest of technologies spanning Windows 2000 as an operating system, e-commerce as an application technology to knowledge management as a concept technology.

Within a couple of years of its starting corporate training, it was selected to partner with Beida Jadebird, a commercial company invested by the Peking University in China to set up a joint venture for computer education all over China and with the FPT Corporation of the Government of Vietnam for setting up Education Centers in Vietnam. It was also selected by the Korean University to educate & train Korean students in new technologies. It focused mainly on superior quality and Total Customer Orientation. Aptech caters to the training needs of over 2 million learners across 52 countries in the field of Information Technology.

Another company called Fands from Pune increased volumes and revenues by entering the segment of corporate training. This company provides services to corporates in the areas of call center training, consultancy, management development and software. The training is mostly project based and is customized to suit project needs. Fands has a pool of technical experts from the industry, who conduct these trainings.

By having alliances with corporate giants like wonderfulbuys.com (a Canadian Call centre operating in Pune) and focusing on faculty, Fands has maintained brand recognition among the corporate fraternity for its services.

It has extended its operations to Bangalore, Chennai, Kolkata and Mumbai. In a period of just 10 years, Fands earned the privilege of regularly serving almost all the big IT organizations in Pune for IT training and consultancy and has clients like IBM, TCS, CMC, Satyam, Infosys Pune, Wipro Pune and Hyderabad, ICICI Infotech Mumbai, Patni Computer Systems, etc.

*Adapted from <http://www.fandsindia.com> and <http://www.Aptech.com>.*

## MARKETING MIX AND EDUCATION SERVICE

The education services market, as already discussed, is a dynamic market with immense scope. There are a good number of players entering the market as the entry and exit barriers are not too high. However, both new players and existing players have to choose their marketing mix carefully to survive the tough competition and fluid market conditions and eventually thrive in the market.

### Product in Educational Services

The product in the education service market is the entire package offered to the student in terms of the topics to be covered, the extent of coverage, number of classes, the duration of the course, the attention given to each student, etc., For example, if an

institute offers a training program in communication technology, it is essential that it offers courses on the latest technologies in the industry. This would help the institute attract students and also charge high fees. Therefore, offering the right product assumes a lot of significance.

An educational institution has to ensure that its syllabi are comprehensive and up-to-date, covering the basics of the subjects and related current issues as well. For example, the economics syllabus of a graduate course should not only discuss the basics of micro and macro economics, but also the economic reforms process in countries like India and China and their implications. As more and more new and unconventional areas are offering job opportunities, education service marketers are required to introduce the necessary changes in the curriculum to equip the students suitably. For instance, service providers in India and Eastern Europe are including courses on foreign languages, soft skills, personality development and communication skills as part of their curriculum, sensing the huge opportunities in BPO industries.

To grow in the market place, institutions can adopt different strategies. Existing institutes can introduce new courses in unrelated areas also. For instance, the IITs, well known in the field of technology education, introduced courses in management in the 90's, leveraging on their success and brand name. Now they are ranked among the top institutes in management education too. Exhibit 29.3 explains the success story of NITIE, a premier management institute in the country.

Marketers also attach some supplementary services to augment the product and enhance the service experience of the customers. For example, dance, yoga, art, etc., are included in the curriculum in many schools as they are expected to improve the overall development of students. In fact, today's children and their parents expect the schools to offer some of these supplementary services as part of the basic package. Some of the other supplementary services can be health education, sports training, career planning guidance, coaching for competitive exams etc. If an institution ignores the role of these additional services, it may lose out to competitors who offer them.

The product mix can be altered to suit the different needs of various customer segments. For instance, JNTU (Jawaharlal Nehru Technological University, AP) offers full-time M.Tech, part-time M.Tech, correspondence M.Tech and summer M.Tech in the same discipline. These four variations of the same course are targeted at different customer groups of students, employees, and academicians. However, certain issues have to be taken care of while designing different variants of the service package. For example, one product should not be a direct competitor for another offered by the company. Cannibalization (one product eating the market share of another in the mix) should be avoided.

### Place in Education Service

The place in education service includes the distribution channel and the location for service delivery. As discussed earlier, the role of intermediaries is almost non-existent in the case of education services. The tutor delivers the service and the student consumes it simultaneously. However, in recent times, franchising, distance education, interactive learning and correspondence education have created scope for distribution channels to deliver the service to students. For example, management institutes like XLRI, IIM-Calicut and MAHE use the services of Hughes Direcway to provide a web-based interactive Executive MBA to executives.

Earlier, the market for a service provider was confined to one locality or one city. But now the scenario has changed as more and more service providers aim to expand their market. The scope of the market has changed from a city to the country and from a country to the entire world. For example, Aptech has its network spread across 52 countries and 3208 training centers. Through 'franchising' their operations, which is the buzzword in the industry, many educational institutions have scaled new heights.

### Exhibit 29.3

#### Niche Marketing -Mantra for Success

The National Institute of Industrial Engineering (NITIE) is an institute of all India repute, which offers programs in management education like industrial management, industrial engineering, industrial safety and environmental management and, management development programs.

NITIE was established in 1963 in Mumbai, by the Government of India with the assistance of the United Nations Development Project. It specializes in management programs meant for industrial engineers. The fact that NITIE catered to the niche market of industrial engineers in the field of management, made it one of the top 5 management institutes in India in merely nine years of operations.

This super specialization also bestows the school products with an edge over their counterparts from other management schools. NITIE conducts regular workshops and seminars at least twice a month to keep the students updated in the area of operations management and other industrial engineering focused areas.

On the instructors' side, it recruits Ph.D. candidates, who have specialized in the areas of industrial engineering and management and have industrial experience along with academic experience. The faculty is also engaged in consultancy and management development programs, and this keeps them in touch with the latest developments in the field. The knowledge gained by them from the industries enriches the students with knowledge that is not restricted by classroom boundaries.

Today, NITIE is an institute of excellence where the average annual salaries in campus recruitments are quite high (they were Rs 6.7 lakh, a little higher than IIMA's 6.2 and IIMB's 6.1 lakhs in 2003). This success of students can be attributed at least in part to NITIE's niche marketing. It has placements in all 5 major sectors of consultancy, FMCG, IT, financial services and manufacturing with giants like Ernst and Young, HLL, TCS, Citibank and Castrol on its list of recruiters.

*Adapted from <http://www.cavindia.com> and <http://www.nitie.edu>*

## Pricing Decision in Education Service

Pricing decisions are vital as they are directly related to the objectives of organizations, such as achieving a certain ROI or increasing the revenues by a certain percentage. No organization can survive without profits in the long run, except the government funded or charitable institutions. So implicitly, price assumes the center stage for any organization. For an education service, the price paid by the customer is known as the fee and generally, this is subject to many constraints mainly in developing and underdeveloped countries.

In some of the developing countries, social and political concerns take priority over financial concerns in pricing the service. In these countries, education is considered as an amenity to be provided by the government, free of charge or at a subsidized price. The pricing of services offered by educational institutions funded partially or fully by government is generally based on the rules and regulations framed by the government from time to time, such as the ability of the consumer to pay and some social issues like reservations and fee-concessions for the weaker sections of the society.

In India, in areas where the demand exceeds supply, pricing is subject to the rules and regulations framed by the government or its authorized bodies like the AICTE (All India Council for Technical Education), which set rules after considering issues like the paying ability of customers and the cost of service incurred by the institutions. The regulations laid down by the government for the universities, engineering colleges and business schools in the country are an example. But in areas of education service where supply exceeds demand, the general pricing principles and



laws of demand and supply apply. Training in computer education, where the prices plummeted after the mushrooming of training institutes and the decline in demand, is an example for this.

Pricing tactics in education, which were once neglected, are now being given a lot of importance. For instance, there are 'international' schools in major cities of the country, which charge hefty fees for primary and secondary education too. Similarly, educational institutions are reaping benefits by offering special schemes like one price for a single total payment and an inflated price for multiple installments, different prices for individual and corporate customers, group pricing where discount is offered to customers who join as group or join before a certain date. They all seem to be working well for the marketers.

### Promotion in Education Service

Promotion plays an important role in education services marketing today, when there is immense competition in the sector. Effective promotion will act as an effective tool for an education institution and help in

- creating awareness of the organization and the various courses offered by it, among the customers
- communicating the special features of the service like faculty, infrastructure etc., to the customers
- developing brand equity for the organization and its services
- persuading the consumers to buy the service by offering different benefits
- penetrating the existing markets
- capturing new markets
- attracting the best students as they add value to the institution

Education service providers are continuously developing innovative promotional strategies to beat the heat of competition in the market and attract more and better students. Some of the strategies adopted by them are discussed below.

- Conducting career planning seminars in hotels and community halls, which are geographically accessible to all. For instance, various coaching institutes conduct this type of seminar.
- Conducting student counseling sessions.
- Conducting demo classes that give an overview of the course and the teaching methodology
- Providing scholarships and fee concessions to attract the best students
- Issuing prospectus free of cost. For example, IIPM gives its prospectus free of cost to the students
- Offering foreign exposure through exchange programs. The IBA (Indian Business Academy) offers an 'Overseas Corporate Tour' to its students to attract them.
- Advertising innovatively and effectively
- Adopting a good PR (public relations) strategy and staying in the news

### People and Education Service

People, in this case, the faculty, play a role of unparalleled importance in marketing educational services. The quality of education delivered by an educational institute is dependent on the faculty among other factors like infrastructure. It is not the qualification and experience of the faculty alone, but their ability to relate to students and ably guide them that builds their reputation and attracts students.

## **Services Marketing**

The worth of an educational institution is assessed by the intellectual capital it possesses. In most of the rankings of business schools and the best colleges in India, the quality of the faculty is taken as an important criterion to determine its rank. Therefore, in this competitive era, there is a great demand for good teachers and competing institutes are continually trying to attract faculty from each other. Therefore, it is important for education marketers to safeguard their talent and motivate them to remain committed. They can do this by providing incentives like attractive consultancy assignments and encouraging them to go in for higher studies. For example, ICFAI University encourages its faculty members to register for a Ph.D. with the University.

### **Process and Education Service**

There are several processes in educational institutions—starting from the admission of students, to conducting examinations and from recruitment of faculty to conducting classes. Any error in any of these processes will have an effect on the performance and reputation of the organization. Each of these processes consists of some sub-processes, which have to be taken care of. For example, conducting examinations involves getting the question papers ready, ensuring confidentiality, issuing hall-tickets to students, getting the venue ready, etc. Incidents of question paper leakage, malpractices and missing hall-tickets have tarnished the image of some of the institutes. For example, leakage of the Common Admission Test (CAT) question paper in 2003 caused a lot of inconvenience and grievance to students as well as the IIMs.

Organizations should try to design and implement fool-proof and standardized processes to avoid any deviations. For instance, the process of student admission can be standardized to include written tests, group discussions, presentations and personal interviews to ensure that really talented and worthy people get selected. So, it is important for educational institutions to have the right processes in place.

### **Physical Evidence in Education Service**

In education service, physical evidence can be provided in the form of infrastructure like the classrooms, the laboratories, a well-equipped library, good hostel facilities, displayed trophies and shields won by the students, displayed certificates of alliance, etc. Like in the case of any service, physical evidence is very important to market the service to the customers, given the intangibility of the service. For example, most educational institutes advertise using photographs of their buildings, labs and libraries when they market their services.

It is even more difficult for educational institutes offering distance education, as none of these facilities will be accessible or visible to the customers. In such cases, the classroom facilities for contact classes, the computer facilities, the reading material supplied etc., constitute the physical evidence.

## **TECHNOLOGY AND ITS ROLE IN EDUCATION**

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With path-breaking inventions and innovations in science and technology, there have been some radical changes in the way the education service is provided to customers. The use of technology has simplified tasks that were earlier difficult. The use of computers and multimedia has reduced the learning time considerably. For example, by using a multimedia projector in the classroom, an instructor can cover more concepts, more effectively, within a short period of time.

Education can today be imparted even with the student in one corner of the world and the teacher in another. Through web-based interactive training, many institutions are able to reach out to a number of students across the world, which would have been

inaccessible earlier. For instance, virtual universities like Zee University and Oracle University provide on-line courseware, tutorials and subject downloads to their students. Ekalavya Channel promoted by the IITs and the IISc, broadcasts video lectures on some core engineering and science subjects.

Many institutions also conduct online examinations, enabling the student to take the examination at his own place and at the time of his choice, and even obtain results instantaneously. For instance, software certification companies like Microsoft and Sun conduct exams online. This has not only resulted in reduction of cost, but also saved time and effort for both the supplier and the customer. The IIMs plan to conduct CAT on-line from 2005.

### EDUCATION IN INDIA

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The education system in India dates back to a time when no fee was charged by the 'Guru' for imparting knowledge to his 'shishyas'. If the guru desired, he could charge a 'gurudakshina', a token amount seen as an expression of the student's gratitude to his guru. However, things have changed considerably today as education has become 'commercialized'. Today, the gurus compete for the best shishyas and the shishyas compete for the best gurus. The gurus charge exorbitant fees and the shishyas willingly pay them.

There has been a complete transformation in the field of education in India in the past 10-15 years. Even more recently, there has been a shift in focus from conventional courses like engineering and commerce to more unconventional but relevant courses like environmental management, hotel management, fashion designing, etc. With the gates being opened to private and foreign institutions to provide education services in the area of higher education, it is expected that there will be intense competition in the Indian education services market. In that scenario, the importance of education services marketing will only increase.

Though India has made significant strides in providing education to the masses, there is more to be achieved. More than 1/3 of the population still remains illiterate. And the need of the hour is a stress on application oriented and job focused education.

### Flaws in the System

There are some flaws in the Indian education system, which have resulted in a high rate of illiteracy and unemployment in the country. The flaws can be summarized as:

- Education, especially higher education, lacks application orientation.
- There is less emphasis on industry and student interface.
- Only one way communication is applied—from the teacher to the student.
- Participative education, i.e., teaching with cases is neglected.
- Less importance is given to personality development programs like role plays, etc.
- Institutions offer Courses by copying competitors, instead of focusing on employment related education.
- Vocational education, which is an area for increase in operations, is neglected.

### What Does Today's Education Marketer Lack?

As more and more new service providers enter the market to offer education services, the education segment is experiencing intense competition. To attract the cream of the students, education providers have become more marketing savvy. But the most

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neglected aspect among some others like knowledge application is the 'industry and academics interface'. Therefore, academics at times, fail to match the needs of the industry. So service providers need to look in this direction to excel and grow in the long run, as these days, employers are on the look out for ready-to-work employees.

Especially for professional courses like engineering, there should always be a faculty provided to guide the students through their internship programs with different corporates, so that they can link the theoretical concepts and the actual industry processes. Teaching in higher education should ensure application orientation and active participation for better education and job prospects for students.

## SUMMARY

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Marketing of education is gaining momentum with the entry of private institutions, change in people's attitude towards education and the changing scope for the different courses being offered. The technological changes and shrinking global boundaries have increased the significance of marketing for education services.

The education service can be described as a high contact, consumer and people based service. However, innovative methods like using multi-media kits while providing the service are making interaction between and instructor and student less significant. With the changes in customer education and the job market, the market for unconventional courses is increasing. So no marketer can afford to ignore these markets.

As the education service is intangible, inseparable and perishable, certain implications exist for marketing. And service quality is not consistent for all customers, or even a single customer at all times. So the marketers' job becomes tough. They are required to ensure that these features of the education service are better utilized to meet the varying needs of customers. The marketing mix can be better utilized to overcome the problems associated with the service specific features of education. By offering education with enhanced features like updated syllabus and industry interaction, they can improve the quality of the product. With franchising and better infrastructure facilities and experienced instructors, marketers can meet customer expectations. With the right mix of all the Ps, tailor-made customer focused courses can be offered.

Technology like computers, LCD projectors and multimedia, has helped service providers offer better service to more customers. It has enabled instructors to deliver the service in less time in an effective manner to even a large group in high contact regular education. It has enabled them to concentrate more on knowledge management rather than on preparation of teaching notes. It has paved the way for increasing the scope of the market and scale of operations with the introduction of modern systems like web based training.

There has been a complete transformation in the field of education in India in the past 10-15 years. Of late, a shift in focus from conventional courses like engineering and commerce to specialized courses like environmental management, hotel management and fashion designing can be witnessed. With the opening up of the gates to private and foreign institutions to provide education services, intense competition can be seen in the years to come. Though India has made significant strides in providing education to the masses, there is more to be achieved. More than 1/3 of the population still remains illiterate. As education is being perceived as a necessity across all segments, marketers can explore the opportunities in job-focused and application-oriented education. There are some basic flaws in the Indian education system like neglecting employment oriented education and participative education. These have to be corrected by the marketers, if they are to survive in this globalized era.

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## **Chapter 30**

# **Charities Marketing**

**In this chapter we will discuss:**

- The Role of Marketing in Charities
- Business Functions in Charities Marketing
- Management Tasks in Charities Marketing
- Marketing Planning and Marketing Mix
- Charity Organizations in India

*"We make a living by what we get; we make a life by what we give,"*

-Winston Churchill, (1874-1965), former Prime Minister of Britain and statesman

Charity organizations are non-profit bodies, which are established with the purpose of serving the public. They may serve downtrodden sections of society, old people, children, women, and people suffering from chronic diseases or victims of natural disasters, wars and accidents. The International Red Cross, for example, strives to protect the lives of people affected by wars and internal strife in countries across the globe. UNICEF serves children across the world.

Charity organizations may be established to rescue and protect animals and birds from human activities and atrocities, and to generate awareness among the public about the need to preserve wild life and protect the environment. WWF (World Wildlife Fund) seeks to protect wild life and conserve forests all over the world.

Charity organizations offer services to the public without taking any money from them in the form of a fee or a price. However, these organizations need money to survive and accomplish their objectives. They generate funds from individuals, corporations and governments in the form of voluntary donations. Charity organizations have dual tasks to perform. They have to create awareness among the people about their existence and services and among prospective donors that they need funds.

In this chapter, we shall discuss the importance of marketing function in charity organizations, the way these organizations market themselves, the manner in which they perform other business functions and develop their marketing plans. We will also discuss the functioning of some charity organizations in India.

### THE ROLE OF MARKETING IN CHARITIES

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There are several charity organizations in the world. Some limit their services and activities to the country in which they are based, while some are active across the world. However, the increasing number of charity organizations has made it difficult for them to generate funds. Increasing competition has compelled the organizations to adopt marketing strategies similar to those used by commercial organizations to attract and retain customers. According to Philip Kotler, "Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others."<sup>1</sup>

By this definition, charity organizations serve the public through two different channels— beneficiaries and donors. Beneficiaries are those who receive the organization's services while donors are those who supply funds to the organization, to enable it offer these services. A charity organization has to satisfy both beneficiaries and donors for self-sustenance and to accomplish its objectives. Adopting commercial marketing principles helps them accomplish these goals. Similarities between commercial organizations and charity organizations make it easier to achieve goals. Some of these similarities are -- both commercial and charity organizations are established to achieve a certain mission. Both have limited resources. Managers are responsible for effective utilization of these resources. Both types of organizations operate in a competitive environment and strive to develop customer loyalty.

An important marketing strategy used by commercial organizations is customer relationship marketing. They attempt to build long-term relationships with customers to develop customer loyalty and enhance business. This strategy can be emulated by charity organizations, to ensure continuous supply of funds from sponsors. Charities

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<sup>1</sup> Philip Kotler. *Marketing Management*. Tenth Edition. Delhi: Prentice Hall of India, 1999.

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may also implement the promotional techniques used by commercial organizations to generate awareness among the public. The application of commercial marketing methods to evoke a positive response among the people to social welfare programs is called *social marketing*.

## BUSINESS FUNCTIONS IN CHARITIES MARKETING

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All organizations, irrespective of the industry in which they operate, apart from goals and objectives, have some common business functions. These functions include marketing, finance, production, personnel and purchasing. These business functions (excluding marketing) in charity organizations are listed below, followed by a description:

- Financial function
- Production function
- Personnel function
- Purchasing function

### Financial Function

Charity organizations, by reason of the purpose for which they are established, are exempt from paying tax but are required to file tax returns to the Income Tax department. Some charity organizations do not even have an accounting department because they do not have sufficient funds to employ people and maintain one. Such organizations can seek membership of special government/cooperative organizations that help in preparing financial statements and carrying out other finance related functions.

Organizations can also announce their annual financial results to the public. CRY (Child Relief and You), in 1998-99, became the first charity organization in India to report its working results, informing donors and the public how its resources had been spent that financial year. Such reports go a long way in assuring donors and sponsors that their money is being used for social welfare programs. This will enhance the credibility of charity organizations and encourage more people to come forward to give funds.

The finances of non-profit organizations are constantly under threat because of international trade agreements and economic downturn. International trade and investment agreements like NAFTA and GATS2 assure protection and support only to those charity organizations, which function without the help of commercial organizations. However, many charity organizations partner with corporate firms for mutual benefit. Owing to the trade pacts mentioned above, governments cannot support these organizations. Many corporate firms also use social service as a means to enter new markets, to gain the support of the local people and use the goodwill generated to start commercial operations subsequently. However, there are some firms like Infosys that have set up a dedicated foundation to serve the poor and the needy. If the government and other independent agencies working for a similar cause join hands with them, such institutions can achieve good results (Refer Exhibit 30.1).

### Production Function

The inputs to a charity organization include funds from individual donors, corporate

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<sup>2</sup>"Dangerous Loopholes in Trade Pacts Threaten Funding of Non-profit Services," Community Action, July 14, 2003.



**Exhibit 30.1****Dr. Reddy's Foundation for Human and Social Development (DRFHSD)**

In 1996, Dr. Anji Reddy, the Chairman of Dr. Reddy's Laboratories, set up DRFHSD, with Nalini Gangadharan of the Ashoka Foundation (a foundation that works towards encouraging social entrepreneurs across the world to eliminate poverty) becoming the Executive Director. DRFHSD focused on poverty alleviation, targeting children, youth and women. DRFHSD's administrative and staff expenses were borne by DRL. Allocation of funds for all new projects was done in consultation with Dr. Reddy. Commenting on this, Dr. Reddy said, "The operative budget at any time is between 15-18 per cent of overheads. Otherwise, the rest of the money will not go to development projects. Even for projects with contributions from outsiders, at least 30 per cent of the funds should be ours. That is the minimum."<sup>1</sup>

The Foundation also received donations from individuals and corporate houses.

By 2002, DRL had allocated Rs. 700 million to DRFHSD and the Foundation received an additional Rs. 500 million as donations from individuals, corporate houses and agencies such as the UNICEF (United Nations Children's Fund), UNDP (United Nations Development Programme) and USAID (US Agency for International Development). Every DRFHSD project was governed by a separate governing council/advisory board, which reported to the Executive Director. The Executive Director, in turn, was responsible to the board of trustees, who oversaw the overall functioning of the Foundation and its activities.

By 2003, DRFHSD educated 2000 children from poor families and plans to educate another one million children across the country by 2005. (The Azim Premji foundation, set up by the WIPRO chairman, Azim Premji, is another foundation that is striving to bring back children from work to school).

*Source: ICMR*

firms, corporate foundations and the government. Sometimes, donors may give help in kind rather than cash. Individuals may donate furniture, vehicles, a house, place or other assets to charities. Corporate firms too prefer to donate products and services because it costs them less than hard cash. For example, an automobile company may donate transport vans to a charity organization. The organization will utilize the vans to reach people in need quickly and serve them better. If the organization receives cash from sponsors, it will utilize the money to hire more employees, improve infrastructure and purchase essential goods and services.

The production function in a charity organization may be described as follows: the fund-raising unit receives cash and goods from various sources and transfers it to the resource-management unit. The latter allocates them to the administration department and the operations unit. The administration unit pays salaries and other bills and expenses required to run the organization. The operations unit utilizes the cash and goods it receives to offer services to the needy. So, basically, four units come into play – fund raising unit, resource management unit, administration department and the operations unit.

**Personnel Function**

Like commercial organizations, charity organizations also need to recruit qualified people, train them to serve its requirements, develop their skills and motivate them to work for the organization's mission. Charity organizations find it difficult to retain talented employees because they cannot afford to pay high salaries like the corporate sector can. Whenever there is a decline in flow of funds because of to economic downturn, charities have to turn to volunteers to get their work done. Volunteers come forward to work with the charity for a certain period because of their interest in the

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cause. They do not get a salary but field expenses are reimbursed. It is difficult for the management at charity organizations to manage and coordinate volunteers and employees at work. Senior managers and leaders need to constantly communicate with them about the mission, vision and strategy. They have to tell them how their efforts can bring about change in the lives of people.. They should ensure that both volunteers and employees are given equal treatment so that neither group gets upset. Senior managers, from time to time, should invite them for discussions, listen to their ideas and appreciate good ones. They should encourage volunteers and employees to respect each other, establish work goals, plan work schedules and function together enthusiastically towards the common goals. Motivation is vital.

## Purchasing Function

Charity organizations need to purchase various goods and services to accomplish their mission. For instance, a charity working for disabled people from the poorer sections of the society needs special teaching kits to educate the visually handicapped, and wheel chairs and crutches for the physically challenged. Charities, which seek to serve orphans or the aged and the homeless, need to have infrastructure to provide food and shelter to them. With their, limited resources, efficient utilization becomes all important. In the absence of a purchase department and professional managers in small charities, many of them fail to procure goods and services at economic prices. This reflects badly on the organizations' performance and donors may perceive the charity as not utilizing the donated funds for the intended purpose. This may stop them from donating funds in the future. Sometimes, a charity organization may need to borrow funds to serve its beneficiaries, in the hope that the situation will improve and it would be able to raise enough funds. If the situation does not improve, the charity may not be able to sustain itself. All this stresses the need for good financial management in a charity, with particular reference in this instance to purchasing goods and services.

The purchasing function in an organization with several branches across a country (like CRY in India) or across the world (like UNICEF) is even more complex. The major reason for purchasing inefficiencies is lack of coordination between different branches. They do not collect quotations from all the suppliers in the market and end up spending heavily on purchases. Though all the branches need similar products and services, they procure them from different vendors and sometimes from the same vendor at different prices. They fail to achieve the economies of scale that should result from bulk purchases. To streamline the purchasing process, charities need to conduct a purchasing audit, identify the loopholes in the process and take steps to rectify them.

Some charity organizations try to cut costs and save time by outsourcing the purchasing process or by procuring products and services online. Others collaborate with corporate firms, producing different products and services, and accept donations in kind from them. In return, they issue press releases about the donations from the firms and express their gratitude, giving the latter good publicity. Thanks to the positive image generated, customers might choose to buy from such socially responsible firms.

## MANAGEMENT TASKS IN CHARITIES MARKETING

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Irrespective of the nature of the organization, there are some management tasks that have to be performed to market products or services successfully. They include:

- Marketing audit
- Market analysis
- Market segmentation

Let us discuss them in detail.

### Marketing Audit

Marketing audit is a process in which an organization reviews its existing marketing and promotion activities and formulates strategies to improve its efforts and utilize its resources better. The management of a charity needs to take the following steps for the audit. First, it should learn about the needs of its customers (donors and beneficiaries). It should then understand what motivates people to contribute money to charities. It should review the organization's mission statement, marketing research reports and strategic plans and evaluate their effectiveness. It should study the number of customers served and the amount of donations received over the last five to ten years. It should follow this by studying the monthly and weekly figures for the same, for each year. It should also study the expenses on marketing and advertising programs and check whether they are giving the desired returns. It should study the marketing strategies and performance of other charities working with the same or similar cause. After thoroughly analyzing all these aspects, the management should attempt to create a new marketing plan and design an effective public relations and promotion strategy. For instance, the management may identify a promotion strategy that yields higher returns and use this strategy more in the future. The management may also experiment with new promotion techniques. For example, CRY partnered with Amazon.co.uk and opened a portal called Ushopugive.com. The portal enabled CRY to receive donations in the form of commissions, whenever people made purchases from this site.

### Market Analysis

Charities need to conduct thorough market research to obtain relevant information, which will help them in better understanding of customer needs. This, in turn, will help in effective planning. Planning ensures that there will be a consistent supply of funds from donors, enabling charities to serve their customers efficiently.

Charities have to understand not only the needs of the needy, but also those of their donors. Charities may be compared to corporate firms in this aspect. Corporate firms not only concentrate on offering quality services to customers but also give equal attention to maintaining relations with suppliers. Like corporate firms, charities can analyze markets, other existing players and the services offered by them. They can then position themselves suitably.

Corporates conduct market analysis to predict the future of the market and prepare for it. For this, the current status of the market first has to be understood. A charity is no different. For instance, say a new charity wants to serve victims of natural calamities. It has to understand the nature of the area and the type of disasters that may occur and learn about other organizations in the place that work in the field. It then has to decide whether it wants to become a market leader, follow the leader or choose a niche market and avoid competition or duplication. Let us cite an example. If floods occur frequently in the region and the poor living in huts are the major victims, existing charity organizations might focus on building temporary shelters and providing food and clothing to the victims until normalcy returns. The new charity can provide a similar service, or look for a lacuna in the services provided by the existing charities. There might be many people left orphaned after the floods. The new charity can take care of such people.

Charities also need to analyze the donor markets. They have to identify individuals and companies willing to contribute money for the cause. They should assess who are one-time donors and who will contribute regularly. Charities should develop close relations, in particular, with potential corporate donors. Some companies donate to charities simply because it is part of their policy. Others encourage employees to contribute to charities and make some contribution from company funds. Some

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companies look for charities working with a cause directly related to their business and make donations to them. For example, a biscuit manufacturing company can donate broken pieces of biscuits, which cannot be sold in the market, to orphanages. Charities need to approach such companies annually to have sufficient inflow.

## Market Segmentation

Charity organizations find it difficult to obtain the desired secondary data and do not have sufficient resources to spend on collecting primary data. They often have to work with inadequate data. As a result, small charities do not develop systematic marketing plans and strategies. Charities need to divide the market into segments and select one. By selecting a segment not served by existing charities, a new charity can avoid competing for resources with another charity working for the same cause. Segmentation also helps a charity understand the needs of customers better, serve their most important needs and utilize resources effectively. This will enhance credibility and make fund raising easier. Here is an example. Some artistes in the Telugu film industry felt that the unstable and unreliable income patterns made their life insecure. They established an organization called MAA (Movie Artists Association) to help people working in the film industry, when in need. It is easy for MAA to raise funds because it chose a niche segment. All film artistes, directors, producers, technicians and other people in the film industry and fans associations can be approached by the MAA for funds.

Like the MAA, charities, which select a particular segment, will be able to define their product and services accurately and convey the message clearly to target customers.

Charities can divide their market into segments based on the following elements:

1. Psychographic – In this category, the customer's personality, attitudes and life style are taken as the basis for segmentation.
2. Geographic – The location where the customers reside, the density of population there and the climate.
3. Socio-demographic – The customer's age, gender, income and profession.
4. Behavioristic – The benefits sought by the customer are considered.

## MARKETING PLANNING AND THE MARKETING MIX

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Charities need to develop short and long-term strategic plans to guide them into the future. Based on these plans and the information obtained from market research and analysis, charities should develop a full-fledged marketing plan. The management should also take into account political, social, legal and economic trends while developing such a plan. It should clearly establish the objectives of the charity, set the targets to be achieved and describe the necessary activities to be undertaken. The plan should also state clearly how the organization can exploit market opportunities, deal with threats, build strengths and overcome weaknesses. CRY again provides a good example here. It developed and implemented marketing strategies in a professional way, similar to commercial organizations (Refer Exhibit 30.2). Programs designed as part of a marketing plan should cover the following elements of the marketing mix.

### Product

Charities need to concentrate on products offered to donors as well as beneficiaries. Charities can sell tangible products such as diaries, address books, soft toys, T-shirts, posters, greeting cards, folders, calendars and mini-organizers. They can sell these products in bulk to corporate firms on order. They can also design product packages that can be bought by individuals and corporate firms. The margins obtained from these sales are used by charities for the needy. For instance, CRY offers different types of products to beneficiaries and donors. CRY greeting cards are now famous. It

**Exhibit 30.2****Marketing Efforts of CRY**

All marketing activities -- purchase, design, manufacture, distribution and direct mailing -- were done by CRY in-house. These activities required the services of around 70% of CRY's staff and resulted in high overhead expenses. With resource mobilization not matching the needs of CRY's activities, it realized the need to refocus and prioritize its activities. Till 2001, CRY's mission was to reach more people, but after 2001, it was changed to reach more and reach better and build conviction for the CRY strategy.

In the process of refocusing, CRY started evaluating itself --- right from organizational structure to the way it worked. After evaluating its activities, CRY decided to make some changes in its way of working, so that its staff could concentrate more on strategic issues. It outsourced its marketing functions to professional agencies so that its staff had more time and energy for other activities. It also outsourced functions such as mail handling and donation processing.

In 2001, CRY entered into a strategic tie-up with Archies Greetings & Gifts Ltd. for manufacturing and retail distribution of the entire CRY product range (cards and stationery) CRY retained the right to design its cards and market them to corporates. Archies extended its support and advice on issues related to product line extensions, retail product expansion, non-seasonal products and e-greetings. Thanks to the tie-up with Archies, the retail presence of CRY greeting cards increased from 500 outlets to 10,000 outlets across the country.

CRY also tied up with corporates such as Tata Chemicals, Pfizer and NIIT to mobilize resources. Tata Chemicals took part in CRY's Cause Related Marketing programme, under which it donated Re 1 per packet of Tata Salt, sold between August 15 and September 15, 2002. It was reported that this initiative resulted in the collection of Rs. 330 million, which was used to support six child development initiatives across the country. Similarly, by donating Re 1 from the sale of each Protinex tin, Pfizer contributed around Rs. 320 million to CRY.

During the same period, CRY also announced changes in its resource mobilization methods. In 2001-02, it introduced an innovative method of marketing – face-to-face communication. For this, it tied up with Support Direct, a large UK based community marketing organization. In this method, Support Direct representatives contacted potential individual donors, described CRY's activities to them and took donor cheques from them. According to analysts, this enhanced the reach of CRY. Support Direct representatives had to be paid for their services, but, the cost of paying them was less than the cost of using traditional marketing channels. Reportedly, the face-to-face initiative resulted in an 83% increase in individual donors in 2002.

Apart from these initiatives, CRY took steps to reduce its costs. It offered a Voluntary Retirement Scheme to around 30% of its staff and also reduced the strength of the resource mobilization teams in Kolkata and Chennai, after studying the income trends in those regions. It consolidated the direct mailing and data entry operations in these two metropolises with those of Delhi and Bangalore, respectively.

In addition, in mid 2002, it upgraded its website, to provide an online donation facility to surfers (surfers had to first register with the site to donate online). CRY tied up with Versign Inc, which offered secure transactions on the Net. According to reports the online payment facility was an instant hit with NRIs and around Rs. 110 million was donated online by the end of 2002. CRY also enabled both individuals and corporates to buy greeting cards and products online. In addition, it allowed surfers to download wallpaper for computers.

*Source: ICMR*

offers education and healthcare to children from poor families in villages and slums (beneficiaries). To donors, CRY offers different sets of products. Individual donors can donate a minimum of Rs. 800 to educate one child for a year. The donation amounts vary over a range and their purpose also differs (Rs. 2400 for three children and Rs. 3200 for four children). By clearly defining the purpose, CRY encourages

## Services Marketing

those interested in improving the lives of poor children to take one of the product offers. A study revealed that charities are more likely to be successful in raising funds when they clearly specify the aim for which the contribution made by an individual or organization will be used. In addition, charities should emphasize the needs of the beneficiaries they serve and the financial help needed by them to aid the latter. The feeling that they are able to contribute to a genuine cause encourages people to donate.

### Price

Charities need to make money to sustain in the market. Funds collected in the form of pure donations may not be sufficient to bear the costs of project implementation and administration. So, they attempt to generate additional money by selling products for profit. Charities are not-for-profit organizations but they are allowed to generate revenue, provided they spend it again on social causes.

The products sold by charities may be manufactured in-house, outsourced or donated by individuals or corporate firms. Charities fix the price of the products so that they make some profit after the cost of manufacture or procurement. Charities also conduct events like sports tournaments, painting competitions, golf outings, baby shows, dog shows and the like. People can help charities by buying tickets for these events and shows, by volunteering or extending monetary help to organize the event. Corporate firms can help charities by sponsoring such events and donating the money collected.

Charities also generate money by collecting a said amount as subscription fee from people who want to join as members. Most charities now have a website, through which they talk about their activities. People can make donations or buy their products through the website. Examples are Red Cross, Blue Cross, Helpage India and CRY.

### Promotion

Charities use print and electronic media to communicate to the public about their activities and the various ways in which people can help them. Charities should design their advertisements carefully so that they inform target clients about the services they can avail from them and most important, appeal to potential donors. Within the meager budgets they usually have for promotion, , charities have to attempt to reach as wide a public as possible. Many use pictures of suffering people to evoke sympathy and convey their message. Sometimes, this can raise a controversy. This is what happened to an advertisement used by Barnardo's, a charity that provided shelter for orphans. The advertisement depicted pictures of babies with a poison bottle, insect and syringe in their mouths. This generated a negative response. Charities should be cautious about the tone they adopt in their promotions.

Organizations can help charities promote their cause by donating advertising space in the print media or time in the electronic media. Charities regularly issue press releases about their programs and events and the media should be generous enough to give space for these items. Some media giants have been known to help charities by discussing their activities in editorials to give maximum exposure and awareness. Charities also celebrate events like Foundation Day and invite prominent people to participate in their functions. Celebrities give speeches, perform shows and entertain the audience. Participants in such functions often make large donations. For example, on December 11, 2003, Helpage India celebrated its Foundation Day in Delhi and invited R. Venkataraman, the former President of India, as chief guest. Other invitees included leading entrepreneurs in India, who made substantial donations. Charities, like corporate firms, use celebrities for endorsing their cause. Miss World 1994 and Bollywood heroine, Aishwarya Roy, endorses the Eye Bank Association of India.

Charities can also adopt door-to-door campaigns and send their representatives to individuals and organizations to collect funds. Sometimes, members of charities offer to collect funds voluntarily from their friends and the public.

Charities can enter into partnerships with commercial organizations to obtain more visibility as well as to generate revenues. Corporate firms pay a certain amount of money to charities and enter into a licensing agreement with them. According to the agreement, the corporate firm is allowed to use the name and logo of the charity on its products. Some corporates promote their products and the cause of the charity by advertising that a percentage of the profit generated from the sales of its products would be donated to the latter. This increases sales for the corporate firm and visibility for the charity and generates revenue for both.

### Place

Some charities go to the people to help them while some charities require people to come to them to avail of their services. For instance, the Red Cross sends its members to places where a disaster has occurred, to help the victims. However, the 'Home for the aged' serves old people who approach it for its services. Blue Cross, an organization that serves pet animals and birds, treats animals brought to them. It also sends vehicles to pick-up injured animals or birds, when called by passers-by. Charities should make themselves available to both the donors and the beneficiaries. They should be willing to go out into the field, say a slum, to reach out to the poor and the needy. Temporary camps and outreach programs can also be arranged.

### People

Managing employees is a big challenge for charity organizations. Employees working in the field need to dedicate time and effort to serve clients without expecting great rewards. . Sometimes, they compare their pay with that of their peers in commercial organizations and get de-motivated by the difference. The managements in charities should keep motivating staff. They should develop a trained and committed workforce to achieve their mission. Generally, people go to work to earn money, make a career and lead a luxurious life. In a charity, even the CEO gets a modest pay. Therefore, employees may be faced with a reality shock. First, issues like salary should be made clear to employees before they *join* the charity. Second, managers need special skills and charisma to instill and maintain enthusiasm. Apart from taking special care in selecting, training, developing and motivating employees, they themselves have to stay dedicated to the cause and be a role model. They also have to manage volunteers and part-timers, who will be of different ages, gender, educational backgrounds and culture. Sometimes this becomes a more difficult task as volunteers have strong opinions of their own.

### Process and Physical Evidence

For services like insurance, a person selects one policy from a range offered by the company, fills in the application given by the agent and submits it. The company processes the form, estimates the risk and returns involved, and determines the premium to be paid by the person taking the policy. The applicant pays the money if the terms are acceptable to him and purchases the policy. The company gives him a certificate as physical evidence. The person or his family receives something tangible (cash) in return, if he faces any risk that is covered by the policy.

It is difficult to follow such a systematic process in a charity. A charity cannot demand that a specified amount be donated. If a person donates some amount to a charity, it cannot produce tangible evidence that some specific help has been rendered to the poor with that donation. For example, a person may donate Rs.500. The charity cannot immediately show to the donor that it provided food and shelter to a particular elderly person or provided education to a particular child with that money. This will take time. Big charities like CRY and Helpage India are publishing annual reports and

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communicating to the public how the funds collected by them are being utilized. Small charities too have to go through audits at the end of the year. This makes them accountable.

In case of commercial organizations, the person or his family directly benefits from the company's services. However, a charity does not promise any benefit to the donor or his family. Therefore, it becomes difficult for a charity to convince people to donate to its cause. One incentive is that donations are exempt from tax. For this, the charity has to register itself and follow some procedures. Tax exemptions act as an incentive to people to make philanthropic donations. Red Cross offers some other benefits too to induce people to give funds. When a person transfers a certain amount of money or stocks worth that amount to the Red Cross, he gets tax deduction and obtains a fixed income regularly for the rest of his life.

In any service organization, physical evidence is difficult to produce and is not expected by customers. The donors only expect that the funds should be utilized for the purpose intended. Charities can prove this by inviting donors to their institutions and taking them around to see the infrastructure, meet the beneficiaries and talk to them about the help being given to them. When charities are funded by large international organizations, the latter usually conduct a periodic review of the activities undertaken. Further funding depends on the past performance.

## CHARITY ORGANIZATIONS IN INDIA

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In India, there are 1.2 million non-profit organizations. Many of them are charity organizations. Apart from the branches of international charities like the Red Cross, the World Wildlife Fund and the Blue Cross, some charities work exclusively in India. Good examples are Child Relief and You (CRY), Dr. Reddy's Foundation for Human and Social Development (DRFHSD), Charitable Care Foundation, Helpage India, Asha for Education, Forgotten Children, Deepalaya, Dr. Shroff's Charity Eye Hospital, Sevalaya, Sanjeevani Seva Sangam, Vidya Sagar, MGR Memorial Charitable Trust and Society for Mental Health and Psychological Awareness (MAPS). Some work at the national level while some limit their activities to a particular state or region. Exhibit 30.3 discusses the example of ActionAid, an Indian NGO.

Established in 1979 by Rippan Kapur and his friends, CRY serves underprivileged children. Asha for Education strives to provide education to underprivileged children and supports groups and individuals working for a similar cause. It also works on women-related issues, environmental problems, health care and socio-economic development. Established in 1991 by students of the University of California, Asha funded about 400 different projects in India by 2003. Deepalaya, established in 1991, seeks to educate children with special emphasis on the girl child. It conducts training programmes for youth. It is active in Delhi and Haryana. DRFHSD works in Andhra Pradesh to send child labourers to school and provide employment opportunities to their parents. The Charitable Care Foundation acts as a bridge between the poor and needy in India and people across the world, willing to help them. Dr. Shroff's Charity Eye Hospital conducts eye operations for the blind from weaker sections of society. Sevala runs a home for orphans and provides education and health services to the poor. Sanjeevan Seva Sangam offers services to the differently-abled. Vidya Sagar provides special education and training to the mentally challenged and helps their families to rehabilitate them. MAPS also works with similar causes. The MGR Memorial Charitable Trust offers its services to the speech and hearing impaired.



**Exhibit 30.3****ActionAid India's Aggressive Marketing**

ActionAid India is a Delhi based non-profit organization which works for a variety of causes ranging from deprived weaker sections of society to street children. The CEO of the company, Jeronimo Jerry (Jerry) conducted market research on donors in India and found that donations in large amounts were made only by two lakh donors. Religious organizations attracted 80% of these donations. About 20,000 non-profit organizations in India competed for the remaining 20%. The money was insufficient for ActionAid to work for its causes. Jerry felt the need to identify potential donors and motivate them to contribute to ActionAid. He believed that strong incentives had to be offered to get contributions. Applying his years of experience of working with corporates, Jerry designed a membership scheme called Karm Mitra. The scheme offered five types of membership named Black, Copper, Bronze, Silver and Gold. A person had to donate a minimum of Rs. 20,000 to obtain the Gold membership. A Gold member obtained various benefits like life insurance from OM Kotak Mahindra, tickets to movies, cassettes and CDs, tax benefits on half of the donation made to ActionAid, a co-branded credit card from ICICI and ActionAid and *Civil Society* magazine, all amounting to Rs. 60,000. It also offered other benefits like discount coupons for meals in certain restaurants, a mobile phone from Reliance Infocomm and holiday packages. ActionAid approached various organizations to sponsor these benefits for their members. Jerry employed direct selling agents (DSA) to market Karm Mitra. DataStar Software is one of the major DSAs, and adds 250 members to the scheme every month. DataStar is an outbound call centre, which markets the services of organizations like Reliance Infocomm and HSBC. DataStar receives 20% of the amount paid by a person to become a member. Encouraged by the response, DataStar, which worked part-time for ActionAid initially, has now allocated 10 workstations exclusively for marketing KarmMitra.

ActionAid also uses network marketing comprising students, housewives, retired people and working professionals to raise funds for its causes. ActionAid also receives funds from ICICI Bank and the UK government, which contribute an amount equal to that raised through Karm Mirta for Commonwealth Education.

*Adapted from Aman Preet Singh "Making Charity Pay," Business Today, 23 May, 2004*

**SUMMARY**

Charity organizations are not-for-profit organizations, which are established with the purpose of serving the public. They may serve downtrodden sections of society or assist victims of natural disasters or wars. Some charities also serve pet animals and birds and stray animals and wild life. Others strive to prevent pollution and protect the environment. Unlike commercial organizations, charities need to serve two types of customers – donors, who supply funds and beneficiaries, who receive the charity's services. Charities use similar strategies to those adopted by corporate firms to market their services. The application of commercial marketing methods by charities to evoke a positive response in society to their social welfare programs is called *social marketing*. Charities attempt to maintain a close relationship with donors to ensure a continuous supply of funds. They also enter into partnerships with commercial firms for mutual benefit. Charity organizations accept donations in cash or kind. Charities need to perform marketing, finance, production, personnel and purchasing functions effectively with the limited resources they have. The finance function includes collecting funds from various sources such as individuals, corporates, government and foundations and allocating them for various projects. The production function includes utilizing the funds to serve customers efficiently. The personnel function involves recruiting, training, motivating, controlling and coordinating employees and

## **Services Marketing**

volunteers to achieve the goals of the organization. The purchasing function includes obtaining quotations from different suppliers, selecting the best supplier, placing orders, receiving products and services and paying the bills. Charities also need to perform marketing management tasks like marketing audit, marketing analysis and market segmentation. As a part of the first, charities evaluate the effectiveness of their promotion activities and attempt to formulate strategies to improve promotion methods and utilize their resources better. Charities also collect information from customers, analyze and interpret it, and understand threats and opportunities in the market, before formulating strategies to deal with them. They also attempt to identify different segments in the market and cater to the segment to which they can offer services efficiently. Charities chalk out a detailed marketing plan to guide them into the future. The marketing plan covers all elements of the marketing mix like product, price, place, promotion, people, process and physical evidence.

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# Glossary

## A

**Accessibility:** This refers to a firm's ability to effectively reach out to the market segments through various distribution and promotion channels.

**Actionability:** This refers to the ability of firms to effectively design and manage marketing mixes in order to attract and serve different segments.

**Actual Product:** The tangible aspects attached to the service, along with the service, constitute the actual product.

**Adaptive Customization:** Companies offering adaptive customization develop a standard product or service that can be altered by the customers to match their specific needs.

**Adequate Service:** It 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.

**Affordable:** Customers should be able to pay for the difference in service/product being offered by the firm.

**Assurance:** This refers to the ability of the service provider and his employees to use their knowledge and courteous behavior to instill trust and confidence in customers regarding the service.

**Attribute Positioning:** A service provider positions itself based on an attribute or a feature.

**Augmented Product:** The intangible aspects that support a service constitute the augmented product.

## B

**Back Office Staff:** The primary function of these personnel is to perform all those activities that enable the front-line service personnel to deliver quality service to customers.

**Balanced Funds:** These funds are invested in a combination of equities and fixed income securities, in a pre-determined proportion and offer both capital appreciation and a steady income.

**Bancassurance:** that is, distribution of insurance products through a bank's distribution channels is the most popular channel.

**Behavioristic Segmentation:** customers are divided on the basis of their knowledge of a product or service and their attitude toward that product or service.

**Benefit Positioning:** Most service providers resort to benefit positioning as the general psyche of the customer is to analyze the benefit that he derives by using a particular service.

**Benefit Segmentation:** This segmentation divides the customer base on the basis of the benefits sought.

**Boom:** An extended period of expansion is referred to as a 'boom.'

## C

**Cellular Phone Service:** It includes satellite mobile communications service, in-flight telephone service, packet communication service and cellular services.

**Cognitive Dissonance:** It happens when a consumer has contradictory thoughts about his previous beliefs or actions regarding a particular product or service.

**Collaborative Customization:** This type of customization aims at helping customers who are not comfortable at selecting from a wide variety of options available.

**Communicable:** The difference in the offer of the firm should be easily explained and communicated to the customers.

**Competitor Positioning:** The service is positioned by the provider against a competitor's service offering.

**Consumer Service Employees:** They offer services that require less of technical skills and more of task related skills.

**Contact Personnel:** The primary function of this category of personnel is to interact with customers and offer them quality service.

**Contraction:** It is a phase in the economic activity, which is symbolized by a decrease in the growth rate of the economy and is visible in retarded industrial production, employment, real-income, and trade.

**Convenience Costs:** They involve the inconvenience faced by customers in consuming the service and is different from the time, search and psychological costs.

**Cosmetic Customization:** Companies adopting cosmetic customization offer the same product or service to all customers, but with a different packaging as chosen by individual customers.

**Credence Qualities:** The qualities of a product or a service that are difficult to assess even after its purchase and consumption/utilization are referred to as credence qualities.

**Critical Incidents:** Among all the service encounters, a few are very important for completing the service delivery process on a successful note. These particular interactions are called critical incidents and are directly responsible for customer satisfaction or dissatisfaction.

**Customer Gap:** The gap between what the customer expects and what the organization offers them is called *customer gap*.

**Customer Service:** It is the ability of an organization to constantly and consistently give the customer what they want and need.

**Customer Service Management cycle:** The various stages like understanding customers, establishing service standards, encouraging team work and customer orientation, establishing control systems and preventing problems rather than fixing them constitute customer service management cycle.

**Customer's Self-Perceived Service Role:** 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.

**Customization Bonds:** This involves maintaining a special relationship with customers by customizing their services to suit the specific needs and preferences of each customer.

**Cyber Butlers:** They are software diploma-holders, who clear the technical doubts of the customers staying at the hotel.

## D

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

**Depression:** It is a severe form of recession. It occurs when there is a significant decrease in the economy's total production along with a high unemployment rate for more than a year.

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**Desired Service Expectations:** They are a combination of what a customer feels that a service provider can offer and should offer.

**Direct costs:** They are the costs that are incurred on producing a product or service and can be attributed to it.

**Direct Marketing:** It involves contacting existing and potential customers directly through telemarketing, direct mail, and online marketing (e-mail and official websites), without employing any intermediaries in the process.

**Distinctive:** The product/service attribute offered by a firm is not offered by its competitors, or the value of the differential attribute offered is unique when compared to that offered by its competitors.

**Diversification:** This **strategy** involves entering a new market with new products or services.

### E

**Empathy:** This refers to the service provider's ability to show concern for customers and devote individual attention to each customer.

**Expansion:** It is a phase in the business cycle, which is represented by an increase in the overall economic activity and growth.

**Experience Qualities** include those attributes of a good or a service, which can be assessed by a customer only after its purchase and utilization.

**Explicit Service Promises:** They are the statements made by a service provider in which he explicitly promises to provide a certain level of service.

### F

**Financial Risk:** The risk faced by a consumer when he needs to pay for the product or service from his own resources.

**Franchiser:** It is a service company that develops a unique standardized service and seeks to distribute its service to customers through the franchise model, thus expanding its business across different locations in a country or different countries.

**Function Point Model:** In this model, price of software services is based on the number of inputs and outputs.

**Functional Risk:** In the case of products, it is the risk faced by the customer that the product he has purchased may fail to function according to his expectations. In the case of a service too, there is a functional risk that the service may not deliver the results that the service provider has claimed.

### G

**Geographic Segmentation:** Under this segmentation, the entire market can be divided into nations, countries, or states and the global market can be segmented into developed countries, developing countries, and underdeveloped countries.

**Globalization:** It refers to the free movement of goods, services, people, capital and technology across various countries in the world.

**Growth Funds:** These funds are invest in equities, which generally offer high returns over a period of time.

### H

**Heuristics:** It refers to a set of rules that increase the probability to solve a problem. People involved in the management develop these rules to reduce the necessity to process information for decision-making.

**High Contact Service:** In this kind of service, the interaction between the service organization and the customer lasts for a long time.

### I

**ILD (International Long Distance) Services:** They allow the customer to communicate with people residing anywhere in the world

**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.

**Income Funds.** These funds are invested in fixed income securities such as bonds, corporate debentures and Government securities and provide regular income to investors.

**Influence Market:** Shareholders, financiers, consumer protection groups, environmentalists, government, media, trade unions and the general public constitute influence market.

**Interactive Marketing:** It refers to the mutual exchanges that take place between front-line employees and the customers before, after and at the point of sale.

**Internal Customers:** Employees are the internal customers of an organization and constitute its internal market.

**Internal Marketing:** It is the process of “viewing employees as internal customers, viewing jobs as internal products that satisfy the needs and wants of those internal customers while addressing the objectives of the organization (according to Berry).

**ITES:** It involves getting the work done or providing a service at the most cost-effective place

### K

**Knowledge Management:** It is a process of creating, disseminating and utilizing knowledge for organizational development.

### L

**Licensing:** It is an arrangement through which an organization (licenser) grants the rights to intangible property like patents, inventions, formula, process, designs, copyrights and trademarks to another company (licensee) for a specified period.

**Line of Code Model:** In this model, the price of software services depends upon the number of lines written in a program.

**Low Contact Service:** In this kind of service, the interaction between the service organization and a customer lasts for a short period.

**Loyalty Segmentation:** This segmentation divides customers on the basis of the degree of their loyalty toward a certain product or service.

### M

**Maintenance Service:** It includes providing services for maintaining the existing hardware and software of the client.

**Market Development Strategy:** It is a strategy that involves expanding business by entering new markets with existing services.

**Market Penetration:** It is a growth strategy wherein the service provider seeks to sell more of the existing products in the existing markets to achieve a larger market share.

**Marketing Audit:** It is defined as the process of reviewing and evaluating the marketing operations of an organization.

**Marketing Planning:** It is defined as the process by which an organization sets goals and formulates strategic plans for achieving them.

**Market- Skimming:** Service providers charge high prices and earn more profit margins until other service providers come up with similar service offerings in the market.

## Services Marketing

**Measurability:** The variables used for segmentation of the market should be easily understandable and assessable.

**Mission Statement:** It defines the purpose of an organization's existence and its philosophy and provides direction to the management.

**Moderate Contact Personnel:** They design and create a tangible or intangible product/service to suit customers' requirements and interact with customers only occasionally.

**Money Market Funds:** They are invested in instruments like treasury bills, certificates of deposit, commercial paper and inter-bank call money.

**Multi-Branding Strategy:** This strategy involves giving different brand names to different products.

**Multi-Product Branding:** In this strategy, a company uses the same name for all its products/services.

**Mutual Fund:** It pools savings from investors (who buy units of the mutual fund) and invests them in diversified securities in the capital market in order to balance returns and safety for the investor and optimize benefits

### N

**National Long Distance (NLD) Services:** They allow a customer to communicate with people residing anywhere in the country.

### P

**Pager Service:** It enables users to receive text messages.

**Penetration Pricing:** The prices of the services are kept low so that customers tend to re-purchase from the same service provider and thus become loyal over time.

**People:** The term refers to all those persons who are involved in the production and consumption of a service.

**Perceived Service Alternatives:** They include customer perceptions of available alternatives that offer similar service.

**Personal Handyphone System (PHS) Service:** Personal Handyphone system (PHS) works as a cordless phone at home and as a mobile phone outside. PHS services are offered on personal digital assistants (PDA) and notebook PCs.

**Personal Selling:** It involves persuading an existing or a potential customer through oral communication, to purchase the service offering of the company.

**Physical Evidence:** It includes tangible accompaniments to the service like the uniforms worn by the staff of the service organization, the ambience in the lobby of a hotel, reports and brochures, business cards, displayed certificates of service quality or appreciation etc.

**Physical Risk:** Physical risk involves the risk to the physical safety of the customer by using the product/service

**Piggyback:** In this method, an organization takes the help of another organization to market its products/services in a foreign market.

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

**Potential Product:** The features or benefits that can be added and which would be of value to the customers contribute to the potential product.

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

**Predicted Service:** It is the service level between the desired and adequate service level of a customer and lies in the zone of tolerance.



**Preemptive:** The difference offered by a firm should be such that it cannot be copied by its competitors easily.

**Price Bundling:** Companies that adopt the price bundling strategy offer two or more services at a time to their customers.

**Process:** It involves transforming a certain input into the desired output.

**Product Development Strategy:** It involves introduction of new products/services in the existing markets.

**Professional Service Employees:** They offer services that require higher-level skills and expertise.

**Psychographic Segmentation:** marketers divide the market on the basis of the life-style and personality of their customers.

**Psychological Costs:** They are borne by the customers either at the time of buying the services or at the time of consuming them.

**Psychological Risk:** Psychological risk is the risk of causing harm to one's self image by making a bad product/service choice.

**Purchase Occasion Segmentation:** This segmentation divides customers on the basis of the reasons behind their purchase.

**Pyramid Organizational Structure:** In this kind of organizational structure, top management is at the top

### Q

**Quality/Price Positioning:** A service is positioned in the market as possessing a certain quality standard or at a particular price.

**Quality:** Quality is conformance to requirements

**Referral Market:** Existing customers, intermediaries, consultants, etc., constitute the referral market for service businesses.

### R

**Relationship Marketing:** It is a process of attracting, maintaining and – in multi-service organizations – enhancing customer relationships (according to Berry and Parasuraman).

**Reliability:** This refers to the ability of the service provider to accurately perform the promised service.

**Responsiveness:** It refers to the willingness of the service provider and his staff to provide assistance and prompt service to customers.

**Reverse Pyramid Organization Structure:**

### S

**Search cost:** It involves the efforts made by a customer to recognize and choose the required service.

**Search Qualities:** They are characteristics that can be estimated before the purchase or consumption of a product.

**Service Blueprinting:** It is the process of representing the entire service process in the form of a picture/diagram so as to ensure that all the steps in a service process are covered.

**Service:** It is any activity of 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 (According to Philip Kotler).

**Short Distance Services:** These services allow users to communicate with people within a given region.

## Services Marketing

**Situational Factors:** They 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.

**Six-Markets Model:** This model discusses the need for an organization to maintain relationship with its employees, the different channel members, recruiters, and agencies which influence customers' decisions.

**Social Marketing:** The application of commercial marketing methods to evoke a positive response among the people to social welfare programs is called social marketing.

**Social Risk:** This is the risk of having to face social embarrassment as a result of making a poor product/ service choice.

**Substantiability:** Marketers should choose their market segments in such a way that the returns on investment are earned quickly.

**Superior:** The firm makes the product/service an obvious choice for the customers to opt for, as no other firm offers the differential benefit in such a way.

**Supplementary Services/Augmented Services:** The additional services that are offered along with core product/service are called supplementary services.

### T

**Tabulation:** Checking the accuracy of the data is called validation.

**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.

**Tax Saving Schemes:** These funds are for those investors looking for tax-saving benefits.

**Time Cost:** It involves the time spent by consumers in co-producing the service or in waiting to receive the service.

**Time Risk:** This is the risk that the time spent to search and locate a product/service prior to its purchase may have been wasted, if the product/service does not conform to the customer's expectations.

**Total Market Survey:** In this survey, firms attempt to take the opinion of all the customers in the market, including existing customers, lost customers and potential customers, about their services.

**Total Quality Management (TQM):** It is a systematic approach in which an organization seeks to continuously improve its processes and enhance its service quality to both internal and external customers, and suppliers.

**Transitory Service Intensifiers:** They are the factors, which intensify or heighten the level of adequate service expectations of customers.

**Transparent Customization:** Companies adopt this type of customization when customers needs are predictable and they are not willing to express their needs repeatedly.

### U

**Usage Rate Segmentation:** This segmentation divides customers based on the frequency of usage of a product or service.

**Use/Application Positioning:** The service is positioned as the best for a certain application.

**User Positioning:** The service is positioned for a specific target group of users. For example, India positions itself as the destination for tourists seeking inner peace.

**User Status Segmentation:** This segmentation divides customers based on their usage of a product or service and the pattern of usage.

### Y

**Yield Management:** also known as revenue management, aims at earning the highest possible revenue in capacity-constrained services through the service-provider's operations.

### Z

**Zone of Tolerance:** It is the gap between a customer's desired service expectations and the adequate service expectations.

**7 P's:** In service marketing there are seven important elements of marketing mix – product, price, place, promotion, physical evidence, process, people which are referred to as 7Ps.

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