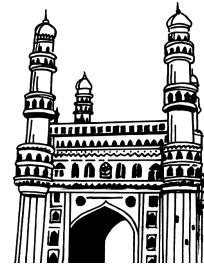


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*II Year IV Semester*

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# SERVICES MARKETING

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# SERVICES MARKETING

## STUDY MANUAL

FAQ's and Important Questions	IV - VII
Unit - I	1 - 24
Unit - II	25 - 64
Unit - III	65 - 95
Unit - IV	96 - 148
Unit - V	149 - 180
Internal Assessment	181 - 183

## SOLVED PREVIOUS QUESTION PAPERS

September - 2020	184 - 186
December - 2019	187 - 191
April / May - 2019	192 - 193

## SOLVED MODEL PAPERS

Model Paper - I	194 - 194
Model Paper - II	195 - 195
Model Paper - III	196 - 196

# SYLLABUS

## UNIT - I

**Introduction to Services Marketing:** Services – Concepts, Characteristics, Classification of Services, Goods vs. Services, Services Marketing Mix, Service Marketing Triangle, Factors responsible for Growth of Services sector, Challenges faced by the Services Sector, Service and Technology, Impact of Technology on Service Firms, Emerging Service Sectors in India.

## UNIT - II

**Focusing on Consumer:** Consumer Behaviour in services, Relevance of Consumer Behaviour, Consumer Expectations in service, Consumer Perceptions of service, Customer Satisfaction, Understanding Consumer Requirements-listening to customers through research, building customer relationships, Customer Feedback, Service Failure and Service Recovery – Recovery Strategies.

## UNIT - III

**Innovation and Quality:** Service Innovation – Design, Challenges, Mapping Patterns of Service Innovation, Types of Service Innovation, stages in service innovation and development, Service Quality, Gaps model of Service Quality-Customer Gap, Provider Gap and Closing Gap, Service Excellence, Service Standards- factors, types, Physical Evidence – managing Physical Evidence, and the Servicescape – Designing Servicescapes.

## UNIT - IV

**Managing Service Operations:** Service Process, Service Blueprinting, Managing Demand and Supply, Participants in Services - Employee's roles in Service Delivery, Customer's roles in Service Delivery, Mass Production and Delivery, Service Guarantee, Ethics in Service Firms.

## UNIT - V

**Managing Service Promises:** Managing Distribution Channels in Service Industry –Strategies for Distribution, Managing People in Service Industry – Challenges, Pricing Strategies for Services – Methods, Promotion Strategies for Services - Need for Coordination in Marketing Communication, five categories of strategies to match service promises with delivery.

# Contents

## UNIT - I

Topic	Page No.
1.1 Introduction to Services Marketing .....	1
1.2 Services .....	3
1.3 Concepts of services .....	4
1.4 Characteristics of Service Marketing .....	8
1.5 Classification of Services .....	9
1.6 Goods Vs Services .....	10
1.7 Services Marketing Mix .....	12
1.8 Service Marketing Triangle .....	13
1.9 Factors Responsible for Growth of Services Sector .....	15
1.10 Challenges faced by the Services Sector .....	15
1.11 Service and Technology .....	16
1.11.1 Impact of Technology on Service Firms .....	18
1.12 Emerging Service Sectors in India .....	20
➤ Short Question and Answers .....	22 - 24

## UNIT - II

2.1 Consumer Behaviour in Services .....	25
2.1.1 Stages Consumer Behaviour in Services .....	27
2.2 Relevance of Consumer Behaviour .....	32
2.3 Consumer Expectations in Service .....	34
2.4 Consumer Perceptions of Service .....	38
2.4.1 Customer Perception .....	40
2.4.2 Customer Satisfaction .....	41
2.5 Understanding Consumer Requirements .....	42
2.5.1 Listening Gap .....	43
2.5.2 Listening to Customers through Research .....	43
2.6 Building Customer Relationships / Relation ship Marketing .....	46
2.6.1 Six Market Frames .....	50
2.6.2 Customer Probability Segments .....	51
2.6.3 Strategies for Building Relationship .....	53

Topic	Page No.
2.7 Customer Feedback .....	53
2.8 Service Failure .....	56
2.9 Service Recovery – Recovery Strategies .....	57
2.9.1 Recovery Strategies .....	58
➤ Short Question and Answers .....	61 - 64

### UNIT - III

3.1 Service Innovation .....	65
3.1.1 Challenges and Mapping Patterns of Service Innovation and Design .....	66
3.1.2 Types of Service Innovation .....	66
3.1.3 Stages in Service Innovation Development .....	67
3.2 Service Quality .....	70
3.2.1 GAPS Model of Service Quality .....	71
3.2.2 Customer Gap .....	74
3.2.3 Provider Gap and Closing Gap .....	75
3.2.4 Service Excellence .....	77
3.3 Service Standards - Factors and Types .....	78
3.4 Physical Evidence .....	80
3.4.1 Managing Physical Evidence .....	84
3.5 The Services Scapes .....	85
3.5.1 Framework for Understanding Service scape Effects on Behavior .....	89
➤ Short Question and Answers .....	93 - 95

### UNIT - IV

4.1 Service Operations Process .....	96
4.2 Service Blueprinting .....	99
4.3 Managing Demand and Supply .....	106
4.3.1 Demand Patterns .....	110
4.3.2 Strategies for Matching Capacity and Demand .....	111
4.3.3 Waiting Line Strategies :When Demand and Capacity Cannot be Matched .....	118
4.4 Participants in Services .....	121

<b>Topic</b>	<b>Page No.</b>
4.5 Employee's Roles in Service Delivery .....	123
4.5.1 Critical Role of Service Employees .....	125
4.5.2 Boundary - Spanning Roles .....	127
4.5.3 Strategies for Delivering Service Quality through People .....	129
4.5.4 Customer - Oriented Service Delivery .....	133
4.6 Customer's Roles in Service Delivery .....	135
4.7 Strategies or Enhancing Customer Participation .....	138
4.8 Mass Production and Delivery .....	140
4.9 Service Guarantee .....	141
4.10 Ethics in Service Firms .....	144
➤ Short Question and Answers .....	145 - 148
<b>UNIT - V</b>	
5.1 Managing Service Promises .....	149
5.2 Managing Distribution Channels in Service Industry .....	150
5.2.1 Strategies for Distribution .....	152
5.2.2 Managing People in Service Industry .....	154
5.2.3 Disadvantages, Drawbacks / Challenges in Distributing Services through Electronic Channels .....	155
5.3 Pricing Methods for Services .....	157
5.3.1 Pricing Strategies that Link to the Four Value Definitions .....	161
5.4 Promotion Strategies for Services .....	164
5.5 Need for Coordination in Marketing Communication .....	168
5.6 Five Categories of Strategies to Match Service Promises with Delivery .....	169
➤ Short Question and Answers .....	178 - 180

## Frequently Asked & Important Questions

### UNIT - I

1. What are the Classification of Services?

*Ans :*

(Sep.-20, May-19, Imp.)

Refer Unit-I, Q.No. 5

2. Distinguish between Goods and Services.

*Ans :*

(Dec.-19, Imp.)

Refer Unit-I, Q.No. 6

3. What Factors Responsible for the Growth of Services Sector.

*Ans :*

(Dec.-19, May-19, Imp.)

Refer Unit-I, Q.No. 9

4. Assets the Impact of Technology on Service Firms in modern times.

*Ans :*

(May-19, Imp.)J

Refer Unit-I, Q.No. 12

5. Discuss about Emerging Service Sectors in India.

*Ans :*

(Sep.-20, Imp.)

Refer Unit-I, Q.No. 13

### UNIT - II

1. Explain the relevance of consumer behaviour.

*Ans :*

(May-19, Imp.)

Refer Unit-II, Q.No. 3

2. Define Customer expectations in Services. Explain the concept of customer service expectations.

*Ans :*

(May-19, Imp.)

Refer Unit-II, Q.No. 4

3. Explain about Customer Satisfaction.

*Ans :*

(May-19, Imp.)

Refer Unit-II, Q.No. 8



4. Examine the ways and means of building customers relationships.

*Ans :* (Sep.-20, Imp.)

Refer Unit-II, Q.No. 12

5. Explain about customer feedback.

*Ans :* (May-19)

Refer Unit-II, Q.No. 16

6. Discuss about service recovery strategies.

*Ans :* (May-19)

Refer Unit-II, Q.No. 19

### UNIT - III

1. What are the Types of Service Innovation.

*Ans :* (May-19)

Refer Unit-III, Q.No. 3

2. Describe the various Stages in Service Innovation and Development along with a neat diagram.

*Ans :* (Dec.-19, May-19)

Refer Unit-III, Q.No. 4

3. Explain the GAPS Model of Service Quality.

*Ans :* (Dec.-19, Imp.)

Refer Unit-III, Q.No. 6

4. Explain the of Physical Evidence in importance of services marketing.

*Ans :* (Sep.-20)

Refer Unit-III, Q.No. 11

5. Discuss about the Services Scapes.

*Ans :* (Dec.-19)

Refer Unit-III, Q.No. 13

6. Explain the Framework for Under Standing Service scape Effects on Behavior.

*Ans :* (Dec.-19)

Refer Unit-III, Q.No. 14

**UNIT - IV**

1. Write about key success factors for service organization.

*Ans :* (May-19)

Refer Unit-IV, Q.No. 4

2. What are the Strategies for Matching Capacity and Demand?

*Ans :* (Dec.-19)

Refer Unit-IV, Q.No. 6

3. Who are the Participants in Services?

*Ans :* (Imp.)

Refer Unit-IV, Q.No. 9

4. What are the Strategies for Delivering Service Quality through People?

*Ans :* (Dec.-19)

Refer Unit-IV, Q.No. 13

5. Discuss about Mass Production and Delivery.

*Ans :* (May-19)

Refer Unit-IV, Q.No. 17

6. What is service guarantee ? Discuss.

*Ans :* (May-19)

Refer Unit-IV, Q.No. 18

**UNIT - V**

1. Write about Managing Service Promises.

*Ans :* (May-19)

Refer Unit-V, Q.No. 1

2. Explain the role of intermediaries in service industry.

*Ans :* (May-19)

Refer Unit-V, Q.No. 4

**3. What are the Pricing Methods for Services?***Ans :*

(Dec.-19, May-19, Imp.)

Refer Unit-V, Q.No. 6

**4. Discuss about Promotion Strategies for Services.***Ans :*

(May-19)

Refer Unit-V, Q.No. 9

**5. Explain the Need for Coordination in Marketing Communication.***Ans :*

(May-19)

Refer Unit-V, Q.No. 10

**6. What are the Five Categories of Strategies to Match Service Promises with Delivery?***Ans :*

(Sep.-20)

Refer Unit-V, Q.No. 11

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# UNIT I

**Introduction to Services Marketing:** Services – Concepts, Characteristics, Classification of Services, Goods vs. Services, Services Marketing Mix, Service Marketing Triangle, Factors responsible for Growth of Services sector, Challenges faced by the Services Sector, Service and Technology, Impact of Technology on Service Firms, Emerging Service Sectors in India.

## 1.1 INTRODUCTION TO SERVICES MARKETING

**Q1. Define Service Marketing. Explain the Components and Importance of Service Marketing.**

*Ans :*

Services Marketing is a sub-field of marketing, which can be split into the two main areas of goods marketing (which includes the marketing of fast moving consumer goods (FMCG) and durables) and services marketing. Services marketing typically refers to both business to consumer (B2C) and business to business (B2B) services, and includes marketing of services such as telecommunications services, financial services, all types of hospitality services, car rental services, air travel, health care services and professional services.

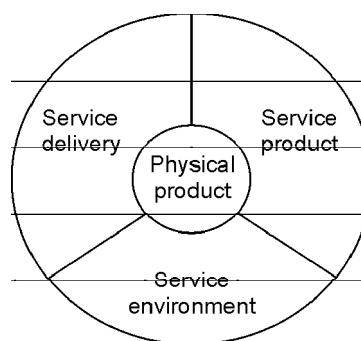
### Definition of Service Marketing

Service marketing is marketing based on relationship and value. It may be used to market a service or a product. With the increasing prominence of services in the global economy, service marketing has become a subject that needs to be studied separately. Marketing services is different from marketing goods because of the unique characteristics of services namely, intangibility, heterogeneity, perishability and inseparability.

### Components of Service Marketing

The services have four components :

1. The physical product
2. Service product
3. Service environment
4. Service delivery



**Fig.: Components of Service**

**1. The Physical Product**

Whatever the organization transfers to the customer which can be touched i.e., is tangible like soaps, shampoos, looks, food etc. is a physical product like the service offering, the product design should also be customer oriented linking of engineering design features to specific customer needs, quality function deployment a method to meet customer needs, assures that this linking will improve the products value to customers.

**2. The Service Product**

This is the core performance purchased by customer. Customer visit supermarket or showroom, they are allowed to look at cars without being approached by sales representatives. Only when the shoppers ask to speak to someone will sales representatives speak to them. Even the prices are posted on the cars to reduce anxiety. The cars have service guarantees and the employees are trained to keep customers happy and help the customers to solve their queries. All such actions are planned to determine overall nature of service experience.

**3. The Service Environment**

It is the physical backdrop that surrounds the service, sometimes, referred to as service scope.

E.g. going for a concert is enjoyable when the theater is clean and has comfortable seats and well lift parking lot. All these aspects of the surrounding are not bought by the customer but is produces an impact on the service experience. The service environment also helps in indicating the intended market segment and position of the service.

E.g. a restaurant near a university campus indicates that it is catering to college students by putting college memorabilia and pictures of student on the walls.

**4. The Service Delivery**

This refers to what actually happens when customers by the service. It is how the service works in actual practice. It is implementation of the plan or design or the service product.

**Importance of Service Marketing**

The appropriately marketed service sector contributes widely in the process of development and adoption of innovative marketing principles helps in increasing the speed of socio economic transformation.

The importance of service marketing is quite clear from the following,

**1. Optimum Utilisation of Resources**

The marketer must make the optimum utilization of resources which are available. If the service resources are underutilized or are not being utilized properly, then it would incur into losses not only for that particular day but also in the future.

**2. Enhancing the Standard of Living**

Development of a nation basically relies upon enhancing the standard of living of the people, which further helps in enhancing the standard of living of the country. The developmental methods which are being followed by the policy makers would highly influence the qualitative developments in the society.

Improving/increasing the standard of living of people would not only depend up on providing them with the adequate opportunities to earn more but also by creating greater public awareness so, that, the people will be aware of how to spend, when and where to spend, what quantity to eat, how to develop their personality and how to keep themselves healthy and so on. All these would make significant contributions to the increased standard of living which would further increase the capabilities of human resources.

**3. Creating and Spreading the Job Opportunities**

Service sector includes various components, which helps in the creation of new job opportunities which helps in reducing the unemployment problem and would result in the development of the country. The different components of service sector are tourism services, education services, banking services,

hospitality services, transportation services, consultancy services, personal care services, and so on.

In USA 85 percent of job opportunities are created by service sector, this helps us in understanding the importance of service sector in the creation of job opportunities.

#### 4. **Environment - Friendly Technology**

In the current scenario, all the service sectors are technology driven, but they are environmental friendly. The nature and different types of technologies deployed for managing and providing services have negligible or very little effect on the environment. Therefore, it can be inferred that, the organisations which are technology driven are providing world class services without any environmental pollution.

#### 5. **Helping in the Formation of Capital**

Increasing the speed of capital formation helps in increasing the speed of process of development there by reducing the problem of insufficient financial resources. This capital formation is highly influenced by the contributions made by the production processes to the national economy.

If there are productive investments then greater contributions can be made in the development process and the increased GNP would help in increasing the income, which can be further invested.

The speed of capital formation can be further increased by identifying the opportunities and profitable services.

### 1.2 SERVICES

#### Q2. Write about services.

*Ans :*

#### **Services**

Service is an act (or) performance which is usually offered by one party to the other one, it can be either tangible (or) intangible in nature. Example the services offered at a hotel restaurant to the customer is tangible in nature i.e., clean and pleasant atmosphere, tasty food, prompt attention and service

from the staff side and so on. While on the otherhand the services which are being offered by Indian Airlines, Indian Railways (or) APSRTC are intangible in nature as they cannot be touched, seen (or) felt.

Goods and services are interrelated in nature for which goods-services continuum has been introduced and it makes quite easier for the company to take a decision on as what they want to become whether goods oriented (or) service-oriented and the following are the companies who deal with both goods and the services, Tata steel, Indian Oil, etc.

#### **Meaning of Services**

A Service is an economic activity, that is intangible or not be touched, not be stored, and not be owned. Postal service Delivering mail is a Service, and the use of expertise like person visiting a doctor is also a service. A service is consumed at the point of sale and does not result ownership.

#### **Definitions of Services**

**According to Philip Kotler**, "A service is an act or performance 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 Zeithmal and Bitner**, "Services are deeds, processes and performances". Here, deeds are the actions of the service provider, processes are the steps in the provision of service, and performance is the customers' understanding of how the service has been delivered.

**According to the American Marketing Association**, "Services are activities, benefits or satisfaction, which are offered for sale are provided in connection with the sale of goods". This definition makes it clear that services are activities, benefits or satisfaction and people find their uses for selling products which may be tangible or even intangible.

#### **Nature of Services**

##### 1. **Lack of ownership**

One cannot own or store a service as it can be done in case of a product. Service is consumed at the point of sale and does not result ownership. Services are used or hired for a period of time. For example buying a movie ticket the service lasts for two or three

hours, but customer want and expect complete entertainment and excellent service for that time period.

## 2. Intangible

Services are intangible in nature, you cannot touch it, cannot see it, cannot taste it. You cannot touch or hold a service as you can do with a product. For example one cannot touch or hold the services provided by his financial adviser. This makes it difficult to evaluate the quality of service prior to consuming it since there are fewer attributes of quality in comparison to a product.

## 3. Inseparable

Service is inseparable in nature means to say that it cannot be separated from the service provider. A product when produced can be taken away from its producer whereas a service is produced at or near the point of purchase. For example visiting a restaurant, you order your meal, wait for the meal, meal delivered to you and services provided by waiter/waitress are all part of service production process and is inseparable.

## 4. Perishable

Service last for specific time period, it cannot be stored as like a product for future use. Service production and utilisation goes simultaneously. For example watching a movie in cinema hall, service will only last the duration of the show. Again because of this time constraint consumers demand more.

## 5. Heterogeneous

It is very difficult to make each service experience identical, for example you travelling by plane the service quality may differ from the first time you travelled by that airline to the second, because the air hostess is less or more experienced. Systems and procedures are followed in service production process to minimise this heterogeneity and to provide consistent services all the time.

### 1.3 CONCEPTS OF SERVICES

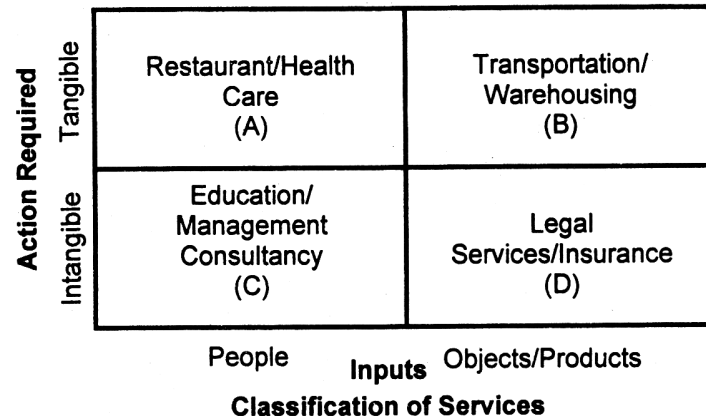
#### Q3. Explain the Concepts of Services.

*Ans :*

##### A) Service as a Process

In service marketing today, service brand is built by taking the process perspective. This means that unlike manufacturing, differentiation between operations and marketing is blurred in the services industry. Internal customer focus is as important as external customer orientation. Further, since customers are often involved in the production of services (for example, the customer in a food chain wherein he places the order, picks up the order himself and then after finishing clears the table), marketers need to understand the nature of the service process and the stages in this process that are exposed to customers. The process is a special method of operation wherein several steps or activities are performed in a defined sequential manner.

It is obvious that people and objects are two major inputs processed in the service industry. In most cases, customers are important inputs in the service process, as reflected by restaurant, airline or beauty salon businesses. In other cases, the key input is an object that needs to be either produced or repaired. For example, a burger is an object to be produced by McDonald in a defined manner and time so as to ensure consistent quality, production and delivery. In another case, like the computer hardware industry, a malfunctioning computer is an object that requires service support. Thus keeping in mind the category of inputs and whether the action required is at the tangible or intangible level, one can have a four-way classification of services as shown in **figure below**.



processing, while quadrant 'C' is mental stimulus processing and the last quadrant 'D' is information processing

**i) People Processing Services:**

People processing services are targeted at themselves. In order to receive these types of services the customer must physically enter the service system or the service factory. For example, an aircraft where both people and equipment or technology, or either of them, *create and deliver* service benefit. Today it is possible that the service producer may come to the customer *with the necessary tools* of his trade. The goal of this service provider is to create a new set of values in the industry, for the customers. For example, a banker may walk up to the customer and complete all the necessary transactions that the customer may want to do at his/her place of work or residence at a time most convenient to him/her.

**ii) Product Processing or Possession Processing:**

In product processing or possession processing services, customers are less physically involved. In most such cases customer involvement is usually limited to calling for the services, explaining the problem and subsequently making the payment. The pre and after sales service here will involve issues relating to customer response management. From the marketing viewpoint, these are a range of services, which are going to add value to the customer and hence, the marketer needs to understand the entire value chain process of the customer. For example, the logistics services provider needs to understand the role of his services in the value creation process of an exporter or of the shares department of a large industrial house, it is important to note here that the customer evaluates such services on the basis of tangible promises being delivered within a defined time period and at a pre-negotiated price.

Thus the marketer has to ensure that there are no problems in delivering the promised service.

**iii) Mental Stimulus Processing:**

Services that are categorized under mental stimulus processing include education, entertainment and management consultancy. It also includes religious services being offered by a large number of religious 'gurus' and their ashrams. These services impact the consumer mind and have the potential to shape their attitudes, behavior and lifestyle. In a way; this relationship of the marketer with the customer is one of dependency, in which the customer is dependent on the 'Guru'. This can often lead to problems relating to manipulation, extortion and even unethical behavior or practices. To avoid such a negative image, such organizations and individuals need to evolve a code of conduct acceptable to the customer and create high ethical standards.



**iv) Information Processing Services:**

In the context of information processing services, the marketer has to understand that information is a most intangible form of service output and, in today's context, most vital from the point of view of the customer's own competitive advantage. In this era of information technology customers shop for information in areas as diverse as accounting, legal research, medicine, insurance, and financial products. The customer's involvement in these situations is very high and hence is categorized as high involvement purchase decisions. From the customer's view point these are high cost (both financial and non financial) and high risk service situations. Hence the customer tries to avoid going into the service factory to shop for the service product. From a marketer's perspective, this poses a challenge to bring the customer to the factory and motivate him to buy and consume the services.

**B) 4 I's of Services**

Services have four major characteristics that greatly affect the marketing programs.

**1. Intangibility:**

Unlike products, services cannot be held, touched, or seen before the purchase decision therefore, they should be made tangible to a certain extent. Marketers should "tangibilize the intangible" to communicate service nature and quality.

Insurance is a guarantee against risk and neither the risk nor the guarantee is tangible. Insurance rightly come under services, which are intangible. Efforts have been made by the insurance companies to make insurance tangible to some extent by including letters and forms

**2. Inconsistency:**

Service quality is often inconsistent. This is because service personnel have different capabilities, which vary in performance from day to day. This problem of inconsistency in service quality can be reduced through standardization, training and mechanization.

In insurance sector, all agents should be trained to bring about consistency in providing service or, the insurance process should be mechanized to a certain extent. Eg: the customers can be reminded about the payment of premium through e-mails instead of agents.

**3. Inseparability:**

Services are produced and consumed simultaneously. Consumers cannot and do not separate the deliverer of the service from the service itself. Interaction between consumer and the service provider varies based on whether consumer must be physically present to receive the service.

In insurance sector too, the service is produced when the agent convinces the consumer to buy the policy and it is said to be consumed when the claim is settled and the policyholder gets the money. In both the above cases, it is essential for the service provider (agent) and the consumer (policy holder) to be present.

**4. Inventory:**

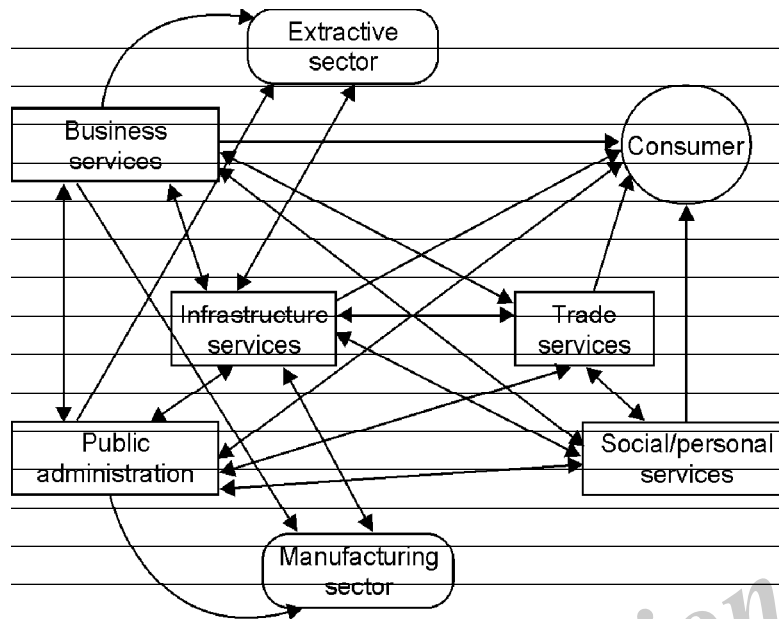
No inventory can be maintained for services. Inventory carrying costs are more subjective and lead to idle production capacity. When the service is available but there is no demand, cost rises as, cost of paying the people and overhead remains constant even though the people are not required to provide services due to lack of demand.

In the insurance sector however, commission is paid to the agents on each policy that they sell. Hence, not much inventory cost is wasted on idle inventory. As the cost of agents is directly proportionate to the policy sold.

**C) Services in the Modern Economy**

Services lie at the very center of economic activity in any society. Dorothy Riddle, in writing about the role of the service sector in world development, formulated the economic model shown in the figure. This model of the economy shows the flow of activity among the three principal sectors of the economy,

extractive (mining & farming) manufacturing and service, which is divided into five sub groups.



**Fig.: Interactive Model of an Economy**

Examples of services in each of the five groups are :

1. Infrastructure services : Communications, transportation.
2. Business services : Consulting, finance, banking.
3. Trade Services : Retailing, maintenance and repair.
4. Social/personal services : Restaurants, health care.
5. Public Administration : Education, Government.

The role of these services in an economy can be understood with the help of following points:

### 1. Infrastructure services

Infrastructure services, such as transportation and communication are the essential links between all sectors of the economy, including the final consumer. In a complex economy, infrastructure services and trade services function as intermediaries between the extractive and manufacturing sectors and as the channel of distribution to the final consumer. Infrastructure services are a prerequisite for an economy to become industrialized, therefore, no advanced society can be without these services.

### 2. Business Services

In an industrialized economy, specialized firms can supply business services to manufacturing firms more cheaply and more efficiently than the manufacturing firms can supply the services for themselves. Thus, more often we find advertising, consulting, financing, and other business functions being provided for the manufacturing sector by service firms.

### 3. Trade Services

Service activities are absolutely necessary for the economy to function and to enhance the quality of life. Consider, for example, the importance of banking industry to transfer funds and transportation industry to move food to areas that cannot produce them.

#### 4. Social/Personal Services

Moreover, a wide variety of social and personal services such as restaurants, lodging, cleaning and child care have been created to move former household functions into the economy.

#### 5. Public Administration

It plays a critical role in providing a stable environment for investment and economic growth. In communities and countries where public administrative services are weak or heavily skewed solely by political or idealistic concerns, essential services are inaccessible to many citizens.

Thus, it is imperative to recognize that services are not peripheral activities but, rather, integral parts of society. They are central to the functioning of a healthy economy. The service sector not only facilitates but also makes possible the goods producing activities of the extractive and manufacturing sectors. Services are the crucial force for change towards a global economy.

### 1.4 CHARACTERISTICS OF SERVICE MARKETING

#### Q4. Write are the Characteristics of Service Marketing ?

*Ans :*

A market in which services are performed for the customers is known as service markets. The service industry has witnessed rapid growth in recent times and they are continuing to grow faster. Services are intangible in nature and does not involves any ownership transfer but maintain close contact with the consumer. Service is an outcome of applications of human or mechanical efforts to people or objects.

##### 1. Intangibility

Services are intangible in nature and this intangibility complicates the task of decision maker, creating several problems, as service cannot be displayed, the buyers cannot see it, cannot test and make a trial before making buying decision, the customer can neither touch it nor smell it, rather in true sense; services are not a physical object.

It has a mental connotation. It then becomes difficult to emphasize on it. Thus while selling it we need to concentrate on benefits and satisfaction derived from it post purchase. For example, an airline sells the seat from one person to another.

Here customer will perceive and expect certain mental connotation from traveling like safety, speed, decent services etc., but cannot smell or taste the service. Thus service by nature is an abstract phenomenon which make it's marketing complicated.

##### 2. Perishability

Services cannot be stored or preserved. Unutilised or underutilized services are found to be waste. If a bedroom in a hotel remain vacant, a seat in aeroplane remain unsold etc. are all economic waste. Service for them is lost for now and future. The reason for this waste is perishability of economic waste.

##### 3. Inseparability

Services are created and supplied at the same time. Like the dancers, musician, dentists etc. create and offer services at the same time. In contrast goods are produced, sold and then consumed.

This inseparability makes the task of marketing services difficult. Goods are produced at one point and distributed to other points and later on consumed, whereas in services, the selling process makes way for the generation of services thus services are sold. Produced and then used E.g. eating at a restaurant. Professional while marketing services should try to minimize the gap between services promised and services offered.

##### 4. Heterogeneity

The quality of services cannot be standardized. Not two services offered are precisely or exactly alike. This inconsistency make it difficult to establish standards. Consumer rate the same services consumed at different places or different instances in a different manner.

For example, the level of satisfaction offered for having biryani at a restaurant on difficult

occasion cannot be made to remain same. Setting or fixing one particular standard of service is difficult.

### 5. Ownership

Services are activities which cannot result into change of ownership. A consumer may use a hotel room, swimming pool, still the ownership remain with the provider of the service. The consumers have just gained access to the service. This creates difficulties in marketing services which otherwise is not the case with respect to marketing goods.

### 6. Unchannelised Distribution

Services cannot be delivered to customer i.e., services don't move through the channel of distribution. To avail services the customers are brought to the providers. Services have limited geographical area.

For example, hotel room can't be brought to users: aeroplane cannot be brought to the customers. In case, providers of service travel to the buyer, time is taken off production of service and cost of service is increased.

### 7. Quality Measurement

As discussed in heterogeneity, quality cannot be standardized or set in services, the quality of the services offered cannot be measured also.

E.g. Level of satisfaction experienced in the service offered in a restaurant cannot be measured accurately.

### 8. Nature of Demand

The demand for services are found to be fluctuating, synchronizing supply and demand of services becomes difficult. As in case of mobility of passengers increases during festivals or marriage season hence the traveling agency has to cope with the heavy rush whereas they are idle in other time. Parks and Zoos are full on holidays and are deserted in working days. This changing demand of services requires to be taken care by marketers.

## 1.5 CLASSIFICATION OF SERVICES

### Q5. What are the Classification of Services?

*Ans :* (Sep.-20, May-19, Imp.)

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 :

#### I) 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.

➤ **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.

➤ **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.

➤ **Information Processing** : This type of service requires service personnel to collect information, analyze it, interpret and offer appropriate advice to the client.

#### II) 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.
- **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.
- **Tangible goods linked to services** : Some services offer a tangible product along with the service requested by the customer.
- **Highly intangible** : These are the services, which do not provide customers with any tangible product.

### III) 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 nonprofessional services and can be delivered without the need for formal training.

### IV) 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.

### V) 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.

## 1.6 GOODS Vs SERVICES

### Q6. Distinguish between Goods and Services.

*Ans :*

(Dec.-19, Imp.)

Goods refer to the tangible consumable products, articles, commodities that are offered by the companies to the customers in exchange for money. They are the items that have physical characteristics, i.e. shape, appearance, size, weight, etc. It is capable of satisfying human wants by providing them utility. Some items are made for one-time use by the consumer while some can repeatedly be used.

Goods are the products which are traded on the market. There is a time gap in the production, distribution, and consumption of goods. When the buyer purchases goods and pays the price, the ownership is passed from seller to buyer.

Products are manufactured in batches, which produces identical units. In this way, a particular product offered by the company will have the same specifications and characteristics all over the market.

**Example:** Books, pen, bottles, bags, etc.

### Definition of Services

Services are the intangible economic product that is provided by a person on the other person's demand. It is an activity carried out for someone else.

They can only be delivered at a particular moment, and hence they are perishable in nature. They lack physical identity. Services cannot be distinguished from the service provider. The point of sale is the basis for consumption of services. Services cannot be owned but can only be utilized. You can understand this by an example: If you buy a ticket for watching a movie at the multiplex, it doesn't mean that you purchased the multiplex, but you have paid the price of availing services.

Service receiver should fully participate when the service is provided. Evaluation of services is a relatively tough task because different service providers offer the same services but charges a different amount. It may be due to the method they provide services is different or the parameters they consider in valuing their services vary.

### Example

Postal services, banking, insurance, transport, communication, etc.

### Comparison Chart

BASIS FOR COMPARISON	GOODS	SERVICES
Meaning	Goods are the material items that can be seen, touched or felt and are ready for sale to the customers.	Services are amenities, facilities, benefits or help provided by other people.
Nature	Tangible	Intangible
Transfer of ownership	Yes	No
Evaluation	Very simple and easy	Complicated
Return	Goods can be returned.	Services cannot be returned back once they are provided.
Separable from the service provider.	Yes, goods can be separated from the seller.	No, services cannot be separated
Variability	Identical	Diversified
Storage	Goods can be stored for use in future or multiple use. Services cannot be stored.	
Production and Consumption	There is a time lag between production and consumption of goods.	Production and Consumption of goods occurs simultaneously.

**1.7 SERVICES MARKETING MIX****Q7. Explain about Services Marketing Mix.**

*Ans :*

The 7Ps includes the traditional elements, plus three new elements. In the services marketing concept, these are defined as following.

**The Traditional Elements****1. Product**

In the service industry, the production and consumption of the product are simultaneous and the product is intangible, diverse and perishable. The nature of this 'product' allows for on the spot customization. This also means that the point at which this activity is occurring becomes very important. Ideally, to ensure repeat experiences of similar quality and a consistently good user experience, most service providers aim to give some customization within an overall standardized mode of delivery.

**2. Pricing**

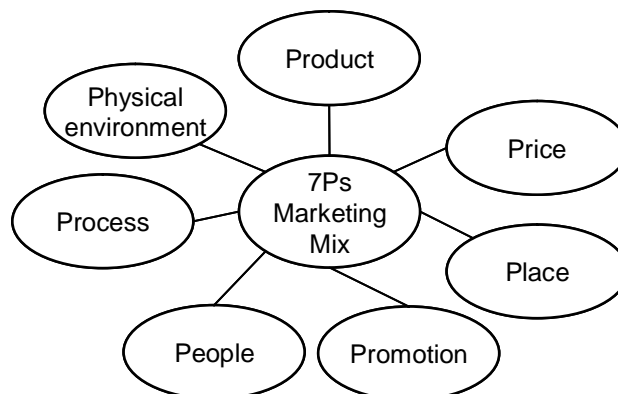
Since a service cannot be measured by what material goes into its creation nor is the actual tangible cost of production measurable, it can be challenging to put a price tag on it. There are some tangibles of course, such as the labor costs and overheads. But additionally, the ambiance, the experience and the brand name also factor into the final price offering.

**3. Place**

As mentioned, the service is produced and consumed in the same place. It cannot be owned and taken away from the location. This is why the place at which this transaction occurs is of vital importance. The location of the service provision is carefully analyzed to allow ease of access and the desire to make the effort to reach it. Fast food restaurants and sales and service centers may be located in busy main streets to allow walk in customers, while a fine dining restaurant may be located in a quiet street to maintain exclusivity and privacy.

**4. Promotion**

Promotion fulfills the same role as it does in any other marketing context. A service may be more easily replicated than a physical product. To prevent a service becoming interchangeable with its competitors, it becomes vital to create a desirable brand image and name in the market. Differentiation becomes a key goal in order to attract both new and repeat customers.

**The New Elements**

**Fig.: Entrepreneurial Insights**

**5. People**

This is a vitally important element of the service marketing mix. When a service is being delivered, the person delivering it is not unique from the service itself. When dining at a restaurant, if a rude waiter is encountered, the entire experience will be labeled as bad service. This is why many businesses invest in defining the right kind of person to fill their service role and then making efforts to find or train people to fit this definition.

**6. Process**

Since service provision needs to strike a balance between customization and standardization, the processes involved in the activity require special mention and attention. A process needs to be clearly defined for the service provider. This basic process should ensure the same level of service delivery to every customer, at any time of day, on any day. Within this process, there should be defined areas where a customer preference can be accommodated to provide a unique experience.

**7. Physical Evidence**

The location of the service delivery also takes on significance. The level of comfort and attractiveness of a service location may make a lot of difference to the user experience. A calm and soothing environment with thoughtful comfort measures may provide a sense of security to a new customer which will make them return.

**1.8 SERVICE MARKETING TRIANGLE****Q8. Explain about Service Marketing Triangle.**

*Ans :*

A service is any act or performance 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. Furthermore, **service marketing** can be defined as the marketing of activities and processes rather than objects. As services are mainly intangible

products, they face a host of services marketing problems that are not always adequately solved by traditional goods-related marketing solutions.

**Services Marketing Triangle**

The **services marketing triangle** was created to handle the complexity that service marketers face when dealing with intangible products. The service marketing triangle highlights three key players, these are;

1. **Company:** The management of a company, including full-time marketers and sales personnel. This is enabled through continuous development and internal marketing with their employees.
2. **Employees:** This includes anyone that is working within close contact of the consumer. They play an integral role within the interactive marketing of service marketing.
3. **Customers:** Anyone that purchases the service of a company. They are also heavily exposed to the external marketing of a firm.

For marketing to be successful, a marketer should ensure that there is positive interaction between these three players. Furthermore, for this success to be accomplished, three types of marketing must be conducted. These are;

- A) **External Marketing – Making Promises:** Involves communication by a company towards their consumer. This form of communication allows the company to offer their services, and set the expectation of service quality that the client can expect. In service marketing this pays particular attention to physical evidence, such as the appearance of the place of business or appearance of staff.
- B) **Interactive Marketing – Keeping Promises:** Interactive marketing is revolved around the communication that occurs between the client and the service delivery personnel. This is one of the most important parts of successfully utilising the services marketing triangle, as it is the only time that the client will have face-to-face experience with the company, via the providers.



- C) **Internal Marketing – Enabling Promises:** A more modern addition to the services marketing triangle, internal marketing centres on training employees to the highest standards so they can deliver exceptional service. Without internal marketing, there is a high chance that the client will receive sub-standard service.

For the service marketing triangle to be implemented successfully, all departments of a company must work together to deliver the highest quality of service that is possible. All members of an organisation must be conscious of their role in delivering service quality, and understand what their marketing function is.



Furthermore, the advancements in technology are having a huge impact on service quality and marketing frameworks. This is because the changes in technology are allowing companies to communicate with customers in a non-physical environment, such as through the internet. This is transforming the services marketing triangle into a services marketing pyramid, as all three factors can be brought together through the clever use of technology.

One of the most significant downfalls to the service marketing triangle is that firms often do not implement it as a triangle. Instead they will focus on one point of the triangle, and neglect the others. This is particularly true to internal marketing, as many organisations believe that if employees are treating correctly, then it will naturally pass through into the external environment. However, the fact that all three points are woven together, and influence by each other, does present opportunities for organisations to conduct their marketing efficiently and at a cheap cost.

Another criticism of the service marketing triangle is that it takes into account too many marketing activities. Marketing is used merely as a tool to coerce a consumer to purchase a good or service, and an organisation shouldn't have to focus on all three aspects of triangle. As service quality is impacted by each individual point of the triangle, an organisation could, theoretically, only focus on one point. However, as previously mentioned, this can have unintended impacts on other facets of the triangle, meaning that an organisation should strive to monitor and implement all three points of the triangle, instead of focusing on only one.

### 1.9 FACTORS RESPONSIBLE FOR GROWTH OF SERVICES SECTOR

**Q9. What Factors Responsible for the Growth of Services Sector.**

*Ans :* (Dec.-19, May-19, Imp.)

**Factors Responsible Growth of Services Sector**

#### 1. Government Policies :

It is Govt. which makes mandatory for price levels, distribution strategies, defining procedure attributes.

Another important action taken by the Govt.s "Privatization" means the policy of transfer- mcompanies.

The transformation of such operations like telecoms, airlines has led to restructuring cost cutting and more market focused.

**Pros of Privatization:**

- Increase the efficiency
- Increase in profits

New change will require services firm to change their marketing strategy, operational procedures, and HR policies.

#### 2. Social Changes

Now a day there is a drastic change, two members are working, which requires to hire individuals to perform tasks that used to be performed by a house hold member.

**E.g.** Child care

Laundry

Food preparation

**Combinations of changing life styles like**

"Higher income

"Declining prices for many high technology products –made for people to by computers.

"Mobile phone etc.

Increased imaginations into countries –U.S, Canada and Australia.

#### 3. Business Trends

Many professional associations have been forced by Govt. to remove long-standing bars on adv and promotional activities.

Franchising has become wider spread in many service industries.

Licensing of independent entrepreneurs to produce and sell a branded service according to tightly specified procedures.

#### 4. Advances in it :

Changes come from the integration of computers and tele-communication More powerful software enables firm to create databases that combine information about customers with details of all their transaction, so that they can be used to predict new trends, segment the market, new marketing opportunities.

The creation of wireless networks and transfer of electronic equipments such as cell phones to lap tops and scanners, to allow sales and customer service personnel to keep in touch.

#### 5. Internationalisation and Globalization :

A strategy of international expansion may be driven by a sector for new markets or by the need to respond to existing customers who are traveling abroad in greater numbers.

When companies set up operations in other countries they often prefer to deal with just a few international suppliers rather than numerous local firms.

The net effect is to increase competition and to encourage the transfer of innovation in both products and processes from country to country.

### 1.10 CHALLENGES FACED BY THE SERVICES SECTOR

**Q10. What are the Challenges Faced by the Services Sector.**

*Ans :*

**Challenges faced by the Service Industry**

It is a challenging task to manage a service or product industry. These challenges however are different and unique for each industry. Some of

the challenges that are faced while managing, growing and making profit from a service industry are discussed below, these factors do not readily apply to the product industry.

1. Services are intangible and so customers cannot see or hold them before they buy it. Buyers are therefore uncertain about the quality of service and feel they are taking a risk. The buyer is unable to conceptualize and evaluate a service from beforehand. From the seller's perspective he finds it challenging to promote, control quality and set the price of the service he is provide. Unlike products the intangible nature of service causes difficulties to both client and the firm.
2. Defining and improving quality in the service industry is a major challenge. Unlike products very often services are produced and consumed simultaneously. As a result service quality management faces challenges that the product industry never ever comes across. In the product industry the manufacturer gets ample opportunity to test his products before they reach the market. In case of a quality issue the problem is taken care of during the quality check and customer satisfaction is taken care of. However during service production the customer is right in front. To guarantee customer satisfaction in this scenario is a major challenge.
3. In case of the service industry the customer first needs to develop trust in the service organization before he buys their services. The client often gives more importance to the amount of faith he has on the service organization than the services being offered and their value proposition.
4. Service industry faces competition not only from fellow service industry but also from their clients who often question themselves whether or not they should engage a service at all !
5. Most of the product companies have dedicated sales staff while in the service industry the service deliverers often do the selling. Coordinating marketing, operations and human resource efforts is a tedious task.

6. Passion works for the service industry. More the passion, spirit and desire among the service staff more is the revenue generation and success generated every day. There is a direct correlation between staff passion and financial success and similarly lack of passion leads to failure in the service industry. Staffs need to be constantly motivated and efforts have to make to sustain employee commitment.
7. While testing new services is a constant challenge communicating about these services simultaneously is also not easy.
8. Setting prices does not come easily for service industry.
9. Standardization versus personalization is another major issue the service industry has to face.

### 1.11 SERVICE AND TECHNOLOGY

#### **Q11. Write about Service and Technology.**

*Ans. :*

The preceding sections examined the roots of services marketing and the reasons why the field exists. Another major trend technology, specifically information technology is currently shaping the field and profoundly influencing the practice of services marketing. In this section we explore trends in technology (positive *and* negative) to set the stage for topics that will be discussed throughout this text. In each chapter you will find a Technology Spotlight box that highlights the influence of technology on issues related to the particular chapter. We will also raise technology and service issues as appropriate throughout the general discussion in the text and have included several cases that explore the opportunities and challenges of services and technology. Together with globalization, the influence of technology is the most profound trend affecting services marketing today.

#### **1. Potential for New Service Offerings**

Looking to the recent past, it is apparent how technology has been the basic force behind service innovations now taken for granted. Automated voice mail, interactive voice

response systems, fax machines, ATMs, and other common services were possible only because of new technologies. Just think how dramatically different your world would be without these basic technology services.

More recently, people have seen the explosion of the Internet, resulting in a host of new services. Internet-based companies like amazon.com and eBay offer services previously unheard of. And established companies find that the Internet provides a way to offer new services as well. For example, Dow Jones, publisher of *The Wall Street Journal*, offers an interactive edition that allows customers to organize the newspaper's content to suit their individual preferences and needs.

Many new technology services are on the horizon. For example, some researchers project that the "connected car" will allow people to access all kinds of existing and new services while on the road.

Already many cars are equipped with map and routing software that direct drivers to specific locations. In the future, in-car systems may provide recommendations for shopping by informing drivers when they are within a certain number of miles of their preferred retailer. On a road trip, the system may provide weather forecasts and warnings, and when it is time to stop for the night, the car's system could book a room at a nearby hotel, recommend a restaurant, and make dinner reservations.

## 2. New Ways to Deliver Service

In addition to providing opportunities for new service offerings, technology is providing vehicles for delivering existing services in more accessible, convenient, productive ways. Technology facilitates basic customer service functions (bill paying, questions, checking account records, tracking orders), transactions (both retail and business-to-business), and learning or information seeking. Our Technology Spotlight traces how, through history, evolving technologies have changed customer service forever.

Companies have moved from face-to-face service to telephone-based service to widespread use of interactive voice response systems to Internet-based customer service and now to wireless service. Interestingly, many companies are coming full circle and now offer human contact as the ultimate form of customer service.

Technology also facilitates transactions by offering a direct vehicle for making purchases. In the financial services field, Charles Schwab transformed itself from a traditional broker to an online financial services company that currently conducts more than 70 percent of its customer transactions online. Technology giant Cisco Systems offers virtually all its customer service and ordering functions to its business customers via technology. Over 90 percent of its transactions with customers are completed online. On the consumer side, online shopping and transactions have already revolutionized the music and book businesses. Predictions suggest that online ordering will also rewrite the rules for purchasing jewelry, real estate, hotel rooms, and software. For example, more than 70 percent of home buyers shop online before completing a home purchase, compared to 41 percent three years ago.

Finally, technology, specifically the Internet, provides an easy way for customers to learn and research. Access to information has never been easier. For example, over 20,000 websites currently offer health-related information. Many provide answers to specific disease, drug, and treatment questions. In a study of online health care information usage, the Pew organization found that among Americans with Internet access, 62 percent had looked for health or medical information on the Web.

## 3. Enabling Both Customers and Employees

Technology enables both customers and employees to be more effective in getting and providing service. Through self-service technologies, customers can serve themselves

more effectively. Via online banking, customers can access their accounts, check balances, apply for loans, shift money among accounts, and take care of just about any banking need they might have all without the assistance of the bank's employees. Wells Fargo, the first bank to offer online services in the United States, finds that its online customers are its most satisfied customers. These online banking services are just one example of the types of self-service technologies that are proliferating across industries.

For employees, technology can provide tremendous support in making them more effective and efficient in delivering service. Customer relationship management and sales support software are broad categories of technology that can aid frontline employees in providing better service. By having immediate access to information about their product and service offerings as well as about particular customers, employees are better able to serve them. This type of information allows employees to customize services to fit the customer's needs. They can also be much more efficient and timely than in the old days when most customer and product information was in paper files or in the heads of sales and customer service representatives.

#### 4. Extending the Global Reach of Services

Technology infusion results in the potential for reaching out to customers around the globe in ways not possible before. The Internet itself knows no boundaries, and therefore information, customer service, and transactions can move across countries and across continents, reaching any customer who has access to the Web. Technology also allows employees of international companies to stay in touch easily to share information, to ask questions, to serve on virtual teams together. All this technology facilitates the global reach as well as the effectiveness of service businesses. Our Global Feature focuses on the migration of service jobs and the ability to produce services almost anywhere.

#### 5. The Internet Is a Service

An interesting way to look at the influence of technology is to realize that the Internet is just "one big service." All businesses and organizations that operate on the Internet are essentially providing services whether they are giving information, performing basic customer service functions, or facilitating transactions. Thus all the tools, concepts, and strategies you learn in studying services marketing and management have direct application in an Internet or e-business world. Although technology and the Internet are profoundly changing how people do business

##### 1.11.1 Impact of Technology on Service Firms

**Q12. Assets the Impact of Technology on Service Firms in modern times.**

*Ans :*

(May-19, Imp.)

#### Impact Role of technology in service marketing process

Technology is influencing the practice of services marketing. It has resulted in tremendous potential for new service offerings. It is shaping the field of service enabling both customers and employees to get and provide customized services. The technology has been the basic force behind the service innovation. Automated voice mail, interactive voice response systems, fax machines, ATMs etc., are possible only because of new technology.

#### Role of technology in service marketing

The role of technology and physical aids in service delivery system are summarized below:

##### 1. Easy accessibility of service:

Internet based companies find that internet makes offer of new services possible. The Wall Street Journal offers an interactive edition where customers organize the newspaper's content according to their needs. Internet based bill paying service ensures convenience to the customers while availing services. The "connected car" will allow people to access all kinds of services while on the road. Cars

are equipped with map and routing software which direct drivers to specific locations. Accessing the Web via cell phones is possible nowadays. Thus, technology is a vehicle for delivering existing services in more useful ways.

**2. New ways to deliver service:**

In addition to providing new service offerings, technology has introduced new ways of delivering service. It is providing vehicles for delivering existing services in more convenient ways. It is true to say that technology facilitates basic customer service functions like bill paying, checking accounts records, tracking orders, seeking information, etc.

The face of customer service has changed with the influx of technology. Before the development of technology every customer service was provided face-to-face through direct personal interaction between employees and customers. Nowadays, large organizations centralist their customer service functions. It is possible by establishing a few large call centres that could be located anywhere in the world. IBM's customer service calls are typical example for consolidating call centres by the large organizations.

Introduction of automated voice response system has improved the customer service in telecommunications. Ford Motor company's technology allows customers to set their own service appointments and monitor the status of their vehicles through online. Also, a good number of websites offer health related information.

**3. Close link with customers:**

Financial service companies achieve a close link with their customers by employing the latest technology. Computers are linked into clients' information systems. Companies engaged in goods distribution install order terminals, inventory control terminals of other equipment at their customers' premises.

This provides the client with better service by facilitating an integrated client relationship.

Financial companies provide online financial services. They provide various types of services on the basis of online orders which go directly into the information management system without human intervention.

**4. Higher level of service:**

Technology enables both customers and employees to be more effective in receiving and providing service respectively. Self-service technologies enable customers to serve access to their accounts, check balances, apply for a loan, transfer money among various accounts. Computer information system allows banks and insurance companies to furnish data to their customers without delay. By having immediate access to information about their service offerings, the employees are able to serve their customers well. This allows employees to customize their services to fit the customer's needs. Technology provides tremendous support in making the employees more efficient in delivering service. Customer relationship management and sales support software aid frontline employees in providing better service.

**5. Global reach of service:**

Infusion of technology in service industry offers enormous scope for reaching out to customers around the globe. The internet is just one big service which knows no boundaries. Information, customer service and transactions can move across countries. The service provider can reach any customer who has access to the web. Technology allows employees of international companies to share information. Technology-based service can be extended to the customers living around the globe.

**6. Cost rationalization:**

Customer expectations are high because of the excellent service they receive from some companies. They expect high quality of service at reasonable cost. Just as in the manufacturing sector, technology can be used in the service industries. It can replace less skilled people working in frontline service jobs. This substitution reduces the costs of

services. For example, automatic car wash and automatic cash dispenser are desired by the customers for their promptness in work. Websites providing answers to specific disease, drug and treatment details are another standing example for cost rationalization.

### 1.12 EMERGING SERVICE SECTORS IN INDIA

**Q13. Discuss about Emerging Service Sectors in India.**

*Ans :*

**(Sep.-20, Imp.)**

The services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment flows, contributed significantly to exports as well as provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

#### 1. Market Size

The services sector is the key driver of India's economic growth. The sector has contributed 57.12 per cent of India's Gross Value Added at current price in H1 2018-19. Net service exports stood at US\$ 38.95 billion in H1 2018-19 (P).

Nikkei India Services Purchasing Managers' Index (PMI) stood at 53.7 in November 2018. The expansion in November 2018 was marked with boost in output, the strongest since July 2018.

#### 2. Investments

Some of the developments and major investments by companies in the services sector in the recent past are as follows:

- Leisure and business travel and tourism spending are expected to increase to Rs 14,127.1 billion (US\$ 216.9 billion) and Rs 806.4 billion (US\$ 12.4 billion) in 2018, respectively.
- India's earnings from medical tourism could exceed US\$ 9 billion by 2020.
- Indian healthcare companies are entering into merger and acquisitions with domestic and foreign companies to drive growth and gain new markets.

#### 3. Government Initiatives

The Government of India recognises the importance of promoting growth in services sectors and provides several incentives in wide variety of sectors such as health care, tourism, education, engineering, communications, transportation, information technology, banking, finance, management, among others.

Prime Minister Narendra Modi has stated that India's priority will be to work towards trade facilitation agreement (TFA) for services, which is expected to help in the smooth movement of professionals.

The Government of India has adopted a few initiatives in the recent past. Some of these are as follows:

- Under the Mid-Term Review of Foreign Trade Policy (2015-20), the Central Government increased incentives provided under Services Exports from India Scheme (SEIS) by two per cent.
- Government of India is working to remove many trade barriers to services and tabled a draft legal text on Trade Facilitation in Services to the WTO in 2017.

**4. Achievements**

Following are the achievements of the government in the past four years:

- India's rank jumped to 24 in 2018 from 137 in 2014 on World Bank's Ease of doing business - "Getting Electricity" ranking.
- Five times more growth in major ports' traffic between 2014-18, compared to 2010-14.
- Six-fold increase in Government spending on telecommunications infrastructure and services in the country – from Rs 9,900 crores (US\$ 1.41 billion) during 2009-14 to Rs 60,000 crores (US\$ 8.55 billion) (actual + planned) during 2014-19.
- A total of 11 projects worth Rs 824.80 crore (US\$ 127.98 million) were sanctioned under the Swadesh Darshan scheme.
- Highest ever revenue was generated by Indian IT firms at US\$ 167 billion in 2017-18.

**5. Road Ahead**

Services sector growth is governed by both domestic and global factors. The Indian facilities management market is expected to grow at 17 per cent CAGR between 2015 and 2020 and surpass the US\$19 billion mark supported by booming real estate, retail, and hospitality sectors.

The implementation of the Goods and Services Tax (GST) has created a common national market and reduced the overall tax burden on goods. It is expected to reduce costs in the long run on account of availability of GST input credit, which will result in the reduction in prices of services.



## Short Question and Answers

### 1. Service marketing.

*Ans :*

Services marketing is a sub-field of marketing, which can be split into the two main areas of goods marketing (which includes the marketing of fast moving consumer goods (FMCG) and durables) and services marketing. Services marketing typically refers to both business to consumer (B2C) and business to business (B2B) services, and includes marketing of services such as telecommunications services, financial services, all types of hospitality services, car rental services, air travel, health care services and professional services.

#### Definition of Service Marketing

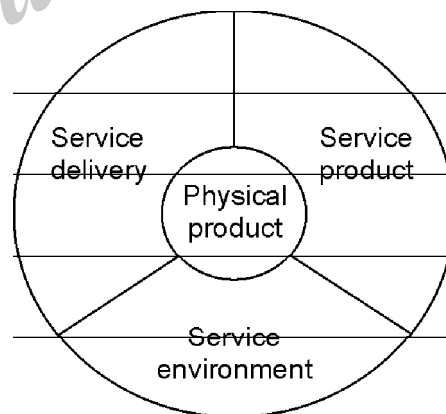
Service marketing is marketing based on relationship and value. It may be used to market a service or a product. With the increasing prominence of services in the global economy, service marketing has become a subject that needs to be studied separately. Marketing services is different from marketing goods because of the unique characteristics of services namely, intangibility, heterogeneity, perishability and inseparability.

### 2. Components of Service Marketing

*Ans :*

The services have four components :

1. The physical product
2. Service product
3. Service environment
4. Service delivery



**Fig.: Components of Service**

#### 1. The Physical Product

Whatever the organization transfers to the customer which can be touched i.e., is tangible like soaps, shampoos, looks, food etc. is a physical product like the service offering, the product design should also be customer oriented linking of engineering design features to specific customer needs, quality function deployment a method to meet customer needs, assures that this linking will improve the products value to customers.

**2. The Service Product**

This is the core performance purchased by customer. Customer visit supermarket or showroom, they are allowed to look at cars without being approached by sales representatives. Only when the shoppers ask to speak to someone will sales representatives speak to them. Even the prices are posted on the cars to reduce anxiety. The cars have service guarantees and the employees are trained to keep customers happy and help the customers to solve their queries. All such actions are planned to determine overall nature of service experience.

**3. The Service Environment**

It is the physical backdrop that surrounds the service, sometimes, referred to as service scope.

E.g. going for a concert is enjoyable when the theater is clean and has comfortable seats and well lift parking lot. All these aspects of the surrounding are not bought by the customer but is produces an impact on the service experience. The service environment also helps in indicating the intended market segment and position of the service.

E.g. a restaurant near a university campus indicates that it is catering to college students by putting college memorabilia and pictures of student on the walls.

**4. The Service Delivery**

This refers to what actually happens when customers by the service. It is how the service works in actual practice. It is implementation of the plan or design or the service product.

**3. Services**

*Ans :*

Service is an act (or) performance which is usually offered by one party to the other one, it can be either tangible (or) intangible in nature. Example the services offered at a hotel restaurant to the customer is tangible in nature i.e., clean and pleasant atmosphere, tasty food, prompt attention and service from the staff side and so on. While on the otherhand the services which are being offered by Indian Airlines,

Indian Railways (or) APSRTC are intangible in nature as they cannot be touched, seen (or) felt.

Goods and services are interrelated in nature for which goods-services continuum has been introduced and it makes quite easier for the company to take a division on as what they want to become whether goods oriented (or) service-oriented and the following are the companies who deals with both goods and the services, Tata steel, Indian Oil, etc.

**Meaning of Services**

A Service is an economic activity, that is intangible or not be touched, not be stored, and not be owned. Postal service Delivering mail is a Service, and the use of expertise like person visiting a doctor is also a service. A service is consumed at the point of sale and does not result ownership.

**Definitions of Services**

**According to Philip Kotler**, "A service is an act or performance 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 Zeithmal and Bitner**, "Services are deeds, processes and performances". Here, deeds are the actions of the service provider, processes are the stops in the provision of service, and performance is the customers' understanding of how the service has been delivered.

**According to the American Marketing Association**, "Services are activities, benefits or satisfaction, which are offered for sale are provided in connection with the sale of goods". This definition makes it clear that services are activities, benefits or satisfaction and people find their uses for selling products which may be tangible or even intangible.

**4. 4 I's of Services**

*Ans :*

Services have four major characteristics that greatly affect the marketing programs.

**1. Intangibility:**

Unlike products, services cannot be held, touched, or seen before the purchase decision therefore, they should be made tangible to a certain extent. Marketers should "tangibilize

the intangible” to communicate service nature and quality.

Insurance is a guarantee against risk and neither the risk nor the guarantee is tangible. Insurance rightly come under services, which are intangible. Efforts have been made by the insurance companies to make insurance tangible to some extent by including letters and forms

## 2. Inconsistency:

Service quality is often inconsistent. This is because service personnel have different capabilities, which vary in performance from day to day. This problem of inconsistency in service quality can be reduced through standardization, training and mechanization.

In insurance sector, all agents should be trained to bring about consistency in providing service or, the insurance process should be mechanized to a certain extent. Eg: the customers can be reminded about the payment of premium through e-mails instead of agents.

## 3. Inseparability:

Services are produced and consumed simultaneously. Consumers cannot and do not separate the deliverer of the service from the service itself. Interaction between consumer and the service provider varies based on whether consumer must be physically present to receive the service.

In insurance sector too, the service is produced when the agent convinces the consumer to buy the policy and it is said to be consumed when the claim is settled and the policyholder gets the money. In both the above cases, it is essential for the service provider (agent) and the consumer (policy holder) to be present.

## 4. Inventory:

No inventory can be maintained for services. Inventory carrying costs are more subjective and lead to idle production capacity. When the service is available but there is no demand, cost rises as, cost of paying the people and

overhead remains constant even though the people are not required to provide services due to lack of demand.

In the insurance sector however, commission is paid to the agents on each policy that they sell. Hence, not much inventory cost is wasted on idle inventory. As the cost of agents is directly proportionate to the policy sold.

## 5. Inseparability

*Ans :*

Services are created and supplied at the same time. Like the dancers, musician, dentists etc. create and offer services at the same time. In contrast goods are produced, sold and then consumed.

This inseparability makes the task of marketing services difficult. Goods are produced at one point and distributed to other points and later on consumed, whereas in services, the selling process makes way for the generation of services thus services are sold. Produced and then used E.g. eating at a restaurant. Professional while marketing services should try to minimize the gap between services promised and services offered.

## 6. Service and Technology.

*Ans :*

The preceding sections examined the roots of services marketing and the reasons why the field exists. Another major trend technology, specifically information technology is currently shaping the field and profoundly influencing the practice of services marketing. In this section we explore trends in technology (positive *and* negative) to set the stage for topics that will be discussed throughout this text. In each chapter you will find a Technology Spotlight box that highlights the influence of technology on issues related to the particular chapter. We will also raise technology and service issues as appropriate throughout the general discussion in the text and have included several cases that explore the opportunities and challenges of services and technology.

## UNIT II

**Focusing on Consumer:** Consumer Behaviour in services, Relevance of Consumer Behaviour, Consumer Expectations in service, Consumer Perceptions of service, Customer Satisfaction, Understanding Consumer Requirements-listening to customers through research, building customer relationships, Customer Feedback, Service Failure and Service Recovery – Recovery Strategies.

### 2.1 CONSUMER BEHAVIOUR IN SERVICES

**Q1. Write about Consumer behaviour in goods and Services.**

*Ans :*

Consumer buying behavior refers to the buying behavior of final consumers - Individuals and households who buy goods and services for personal consumption.

#### Definition of CB

**According to Belch and Belch,** "Consumer behavior is the process and activities people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services so as to satisfy their needs and desires".

**According to Engel, Blackwell and Miniard,** "Consumer behavior includes those activities directly involved in obtaining, consuming and disposing of products and services including the decision processes that precede and follow these actions".

**According to Solomon,** "Consumer behavior is the process involved when individuals or groups select, purchase, use, or dispose of products, services, ideas or experiences to satisfy needs and wants".

Consumer behavior can be defined as "the activities and the actions of people and organization that purchase and use economic goods and services, including the influence on these activities and actions".

In other words, Consumer behavior can be said to be the study of how individuals make decisions on how to spend their available resources

(time, money, effort) on various consumption-related items. This simple definition of consumer behavior tells marketers to resolve every activity around the ultimate consumer and gauge their behavior by specifically focusing on:

1. Who buys products or services?
2. How do they buy products or services?
3. Where do they buy them?
4. How often do they buy them?
5. How often do they use them?
6. When do they buy them?
7. Why do they buy them?

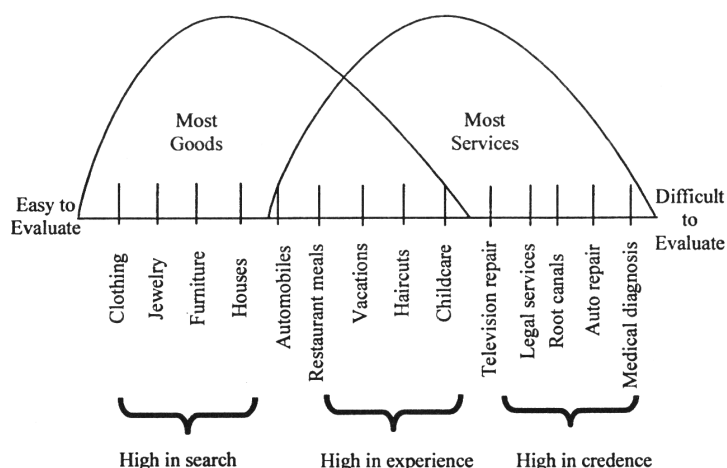
#### Search, Experience and Credence Property/Attributes

The 'experience', 'credence' and 'search' attributes are some of the factors that distinguish services from goods. Services are high on experience and credence attributes while goods are high on 'Search' attributes. Attributes that can be evaluated before purchase are called search attributes. Goods are usually high on these. For example, goods can be seen, touched and felt, or evaluate their physical or other properties. In services, usually the experience is needed before evaluating them. Sometimes, customer cannot be sure of attributes even after the experience. These attributes are known as credence attributes.

For example, after going through a postgraduate program in zoology, the student may still not be sure if she has got a good education or not. Or, after servicing car, customer may still feel that the mechanic or service company has ripped him off.

Goods/Services	Characteristics
Goods	High on Search Attributes
Services	High on Experience and Credence Attributes

**Table: Search, Experience and Credence Attributes**



**Fig.: Continuum of Evaluation for Different Types of Products/Services**

1. **Search Attributes:** Attributes that a consumer can determine before the purchase. Physical goods tend to emphasize those attributes that allow customers to evaluate a product before purchasing it. Style, color, texture, taste, and sound are features that allow prospective consumers to tryout, taste test, or "test-drive" the product prior to purchase. These tangible attributes help customers in understanding and evaluating what they will get in exchange for their money and reduces the sense of uncertainty or risk associated with the purchase occasion. Clothing, furniture, cars, electronic equipment, and foods are goods high in search attributes.
2. **Experience Attributes:** Attributes that a consumer can determine only after the purchase. When attributes cannot be evaluated prior to purchases, customers must experience the service to know what they are getting. Holidays, live entertainment performances, sporting events, and restaurants fall into this category. Although they can examine brochures, scroll through websites describing the holiday destination, view travel films, or read reviews by travel experts, people cannot evaluate or feel the dramatic beauty associated with hiking in the Canadian Rockies or the magic of scuba diving in the Caribbean until they experience these activities.  
  
No customers can always rely on information from friends, family, or other personal sources when evaluating these and similar services, because different people may interpret or respond to the same stimuli in different ways.
3. **Credence Attributes:** Attributes that consumer may find impossible to evaluate even after purchase and consumption. Product characteristics that customers find impossible to evaluate, confidently even after purchase and consumption are known as credence attributes because the customer is forced to trust that certain benefits have been delivered, even though it may be difficult to document them. For example, patients can not usually evaluate how well their dentists have performed complex dental procedures.

### 2.1.1 Stages Consumer Behaviour in Services

#### Q2. What are the stages of Consumer Behaviour ?

*Ans :*

Three broad stages of consumer behavior, as shown in Figure

1. Consumer choice,
2. Consumer experience, and
3. Postexperience evaluation.

Within each of these stages, you will see similarities and differences between goods and services.

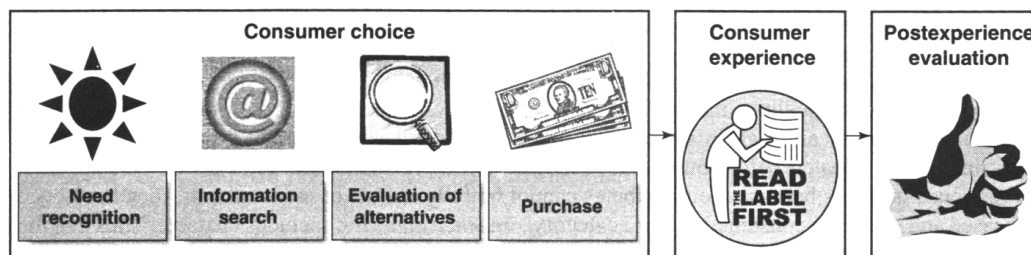


Fig.: Stages in Consumer Decision Making and Evaluation of Services

#### 1. Consumer Choice/Consumer Decision Process

The first important area of consumer behavior that marketers are concerned with is how customers choose and make decisions and the steps that lead to the purchase of a particular service. This process is similar to that used for goods in some ways and different in others. Customers follow a logical sequence, including need recognition, information search, evaluation of alternatives, and purchase. The following sections discuss this sequence, particularly focusing on the ways in which services decision making is different from goods decision making.

**A) Need Recognition :** The process of buying a service begins with the recognition that a need or want exists. Although there are many different ways to characterize needs, the most widely known is Maslow's hierarchy, which specifies five need categories arranged in a sequence from basic lower-level needs to higher-level needs.

Services can fill all these needs, and they become increasingly important for higher-level social, ego, and self-actualization needs.

- i) **Physiological needs** are biological needs such as food, water, and sleep. The recognition of these basic needs is fairly straightforward. Recall the last time you were on vacation, perhaps sight-seeing in a new place. At some point around lunchtime, you recognized that you were thirsty and hungry and needed to stop and have lunch. Restaurants, coffee shops, bistros, and other service establishments that provided food and water likely became more noticeable. If you were sight-seeing in Tokyo, you would notice that virtually every other street contains a large vending machine with ice cold drinks to quench the thirst of citizens and visitors suffering from the intense heat.
- ii) **Safety and security needs** include shelter, protection, and security. Consumers seek to provide for their own and their loved ones' shelter, safety, and security through many types of

services. Parents are particularly focused on services that provide for their children's security (e.g., quality child care, medical care, education), and later in life these same people are often faced with needing services that will provide for their own aging parents. As we progress through life, our safety and security needs change and sometimes are heightened by circumstances.

- iii) **Social needs** are for affection, friendship, and acceptance. Social needs are critical to all cultures but are particularly important in the East. In countries like Japan and China, consumers place a great deal of value on social and belonging needs. They spend more time with their families and work colleagues than do Westerners and therefore consume more services that can be shared. The Japanese spend more annually per capita in restaurants, for example, than any other country. Consumers in all cultures use many types of services to address social needs, including health clubs, dance clubs, and vacation destinations like Club Med, in which socializing is encouraged.
- iv) **Ego needs** are for prestige, success, accomplishment, and self-esteem. Food, safety, and social belonging are not enough for many consumers. Individuals also seek to look good to others and to feel good about themselves because of what they have accomplished. Needs to improve oneself and achieve success are responsible for the growth of education, training, and other services that increase the skills and prestige of consumers. Personal services such as spa services, plastic surgery, teeth whitening, and some forms of physical training and weight-loss also satisfy these needs.
- v) **Self-actualization** involves self-fulfillment and enriching experiences. Consumers desire to live up to their full potential and enjoy themselves. Some consumers purchase experiences such as skydiving, jungle safaris, and bungee jumping for the pure thrill of the experience, a need quite different from the others in Maslow's hierarchy. Other people self-actualize through classes in oil painting or poetry writing, thereby expressing feelings and meanings that are unrelated to the basic needs of day-to-day living.

The hierarchical nature of Maslow's need categorization has been disputed, and evidence exists that people with unfilled basic needs can be motivated to self-actualize. We are not concerned with the hierarchical nature in this section; we use it only as a way to discuss different drives that lead customers to the next stages of consumer behavior in services.

**B) Information Search :** 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.

- i) **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:

- a) **Personal Sources:** Friends, family, neighbors, etc.
- b) **Commercial Sources:** Dealers, salespeople, point-of-sale displays, retailers, advertising, etc.

- c) **Public Sources:** Television, news-papers, consumer organizations, radio, magazines of interest to consumers, etc.
- d) **Experiential:** Product-trial, observing, handling, examining, etc.
- ii) **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.
- iii) **Purchase Behavior :** Customers' purchases can be classified into trial purchases, repeat purchases, and long-term commitment purchases as shown in figure.

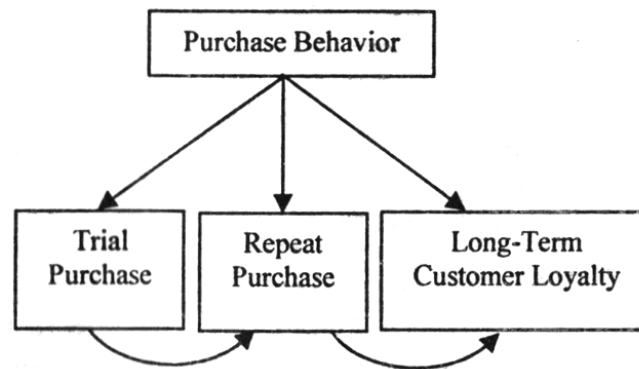


Fig.: Purchase Behavior

Customer makes 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 example, 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.

- iv) **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.

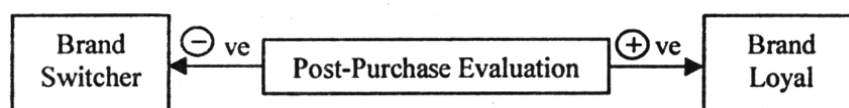


Fig. : Post-Purchase Evaluation

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.



## 2. Consumer Experience

Because the choice process for services is inherently risky with many unknowns, the experience itself often dominates the evaluation process. As noted, services are high in experience and credence qualities relative to goods; thus, how consumers evaluate the actual experience of the service is critical in their evaluation process and their decision to repurchase later. In fact, noted customer experience experts have stated that "the experience is the marketing."

Much has been written recently about customer experiences and their important role in influencing consumer behavior. Goods and services companies alike are being admonished to create "memorable experiences for their customers." Our Strategy Insight on next page, illustrates the prominent role that experiences have assumed in corporate strategy.

### A) Elements of Customer Experience

- i) **Services as Processes:** Because services are actions or performances done for and with customers, they typically involve a sequence of steps, actions, and activities. Consider medical services. Some of the steps in medical care involve customers interacting with providers (e.g., patients interacting with their physician), other steps may be carried out by the customers themselves (e.g., "following the doctor's orders," taking medications), and other steps may involve third parties (e.g., going to a lab for blood work).

The combination of these steps, and many others along the way, constitute a process, a service experience that is evaluated by the consumer. In many cases, the customer's experience comprises interactions with multiple, interconnected organizations, as in the case of medical services, automobile insurance, or home buying. Diverse sets of experiences across the network of firms (e.g., a doctor's office, medical laboratory, hospital, and physical therapy clinic) will likely influence consumers' overall impressions of their experience. Whether or not the provider

acknowledges it or seeks to control this experience in a particular way, it is inevitable that the customer will have an experience - good, bad, or indifferent.

- ii) **Service Provision as Drama:** The metaphor of a theater is a useful framework for describing and analyzing service performances. Both the theater and service organizations aim to create and maintain a desirable impression before an audience and recognize that the way to accomplish this is by carefully managing the actors and the physical setting of their behavior. The service marketer must play many drama-related roles - including director, choreographer, and writer - to be sure the performances of the actors are pleasing to the audience.

- iii) **Service Roles and Scripts:** Roles are combinations of social cues that guide and direct behavior in a given setting. Just as there are roles in dramatic performances, there are roles in service delivery. For example, the role of a hostess in a restaurant is to acknowledge and greet customers, find out how many people are in their group, and then lead them to a table where they will eat.

The success of any service performance depends in part on how well the role is performed by the service actor and how well the team of players - he "role set" of both service employees and customers - act out their roles. Service employees need to perform their roles according to the expectations of the customer; if they do not, the customer may be frustrated and disappointed. If customers are informed and educated about their roles and if they cooperate with the provider in following the script, successful service provision is likely.

One factor that influences the effectiveness of role performance is the script - the logical sequence of events expected by the customer, involving her as either a participant or an observer. Service scripts consist of sequences of actions associated with actors and objects that, through repeated involvement, define what the customer expects.

**iv) The Compatibility of Service Customers:**

We now want to focus on the role of other customers receiving service at the same time. Consider how central the mere presence of other customers is in churches, restaurants, dances, bars, clubs, and spectator sports: If no one else shows up, customers will not get to socialize with others, one of the primary expectations in these types of services. However, if customers become so dense that crowding occurs, customers may also be dissatisfied. The way other customers behave with many services such as airlines, education, clubs, and social organizations also exerts a major influence on a customer's experience. In general, the presence, behavior, and similarity of other customers receiving services has a strong impact on the satisfaction and dissatisfaction of any given customer.

Customers can be incompatible for many reasons differences in beliefs, values, experiences, abilities to pay, appearance, age, and health, to name just a few. The service marketer must anticipate, acknowledge, and deal with heterogeneous consumers who have the potential to be incompatible. The service marketer can also bring homogeneous customers together and solidify relationships between them, which increases the cost to the customer of switching service providers. Customer compatibility is a factor that influences customer satisfaction, particularly in high-contact services.

**v) Customer Coproduction:** In addition to being audience members, as suggested by the drama metaphor, service customers also play a coproduction role that can have profound influence on the service experience. For example, counseling, personal training, or educational services have little value without the full

participation of the client, who will most likely have extensive work to do between sessions. In this sense, the client coproduces or cocreates the service.

In business-to-business contexts such as consulting, architecture, accounting, and almost any out sourced service, customers also coproduce the service. It has been suggested that customers therefore need to understand their roles and be "trained" in ways that are similar to the training of service employees, so that they will have the motivation, ability, and role clarity to perform.

**vi) Emotion and Mood:** Emotion and mood are feeling states that influence people's perceptions and evaluations of their experiences. Moods are distinguished from emotions in that moods are transient feeling states that occur at specific times and in specific situations, whereas emotions are more intense, stable, and pervasive.**3. Postexperience Evaluation**

Following the service experience, customers form an evaluation that determines to a large degree whether they will return or continue to patronize the service organization. Historically within the field of marketing, much more attention has been paid to pre purchase evaluations and consumer choice. Yet, postpurchase and postexperience evaluations are typically most important in predicting subsequent consumer behaviors and repurchase, particularly for services.

Postexperience evaluation is captured by companies in measures of satisfaction, service quality, loyalty, and sometimes emotional engagement.

**i) Word-of-Mouth Communication**

Postexperience evaluations will significantly impact what consumers tell others about the service. Because service consumers are strongly influenced by the personal opinions of others, understanding and controlling word-of-mouth communication becomes even more important for service companies.

**ii) Attribution of Dissatisfaction**

When consumers are disappointed with purchases - because the products do not fulfill the intended needs, do not perform satisfactorily, or are not worth the price -they may attribute their dissatisfaction to a number of different sources, among them the producers, the retailers, or themselves. Because consumers participate to a greater extent in the definition and production of services, they may feel more responsible for their dissatisfaction when they purchase services than when they purchase goods.

**iii) Positive or Negative Biases**

There is a long history of research in psychology and consumer behavior that suggests that people remember negative events and occurrences more than positive ones and are more influenced by negative information than by positive information. Research and personal observation suggest that it is easier for consumers to remember the negative service experiences they have than to think of the many routine, or even positive, experiences. Yet some very interesting and recent research suggests "positivity bias" for services.

**iv) Brand Loyalty**

The degree to which consumers are committed to particular brands of goods or services depends on a number of factors: the cost of changing brands (switching cost), the availability of substitutes, social ties to the company, the perceived risk associated with the purchase, and the satisfaction obtained in the past. Because it may be more costly to change brands of services, because awareness of substitutes is limited, and because higher risks may accompany services, consumers are more likely to remain loyal to service brands when compared with goods producers. The difficulty of obtaining information about services means that consumers may be unaware of alternatives or substitutes for their brands, or they may be uncertain about the ability of alternatives to increase satisfaction over present brands.

**2.2 RELEVANCE OF CONSUMER BEHAVIOUR****Q3. Explain the relevance of consumer behaviour.***Ans :***(May-19, Imp.)**

Importance of consumer behaviour:

**1. Production Policies**

The study of consumer behaviour effects production policies of enterprise. Consumer behaviour discovers the habits, tastes and preferences of consumers and such discovery enables and enterprise to plan and develop its products according to these specifications. It is necessary for an enterprise to be in continuous touch with the changes in consumer behaviour so that necessary changes in products may be made.

**2. Price policies**

The buyer behaviour is equally important in having price policies. The buyers of some products purchase only because particular articles are cheaper than the competitive articles available in the market.

**3. Decision regarding channels of distribution**

The goods, which are sold and solely on the basis of low price mass and economical distribution channels. In case of those articles, which are T.V. sets, refrigerators etc. Must have different channels of distribution. Thus, decisions regarding channels of distribution are taken on the basis of consumer behaviour.

**4. Decision Regarding Sales Promotion**

Study of consumer behaviour is also vital in making decisions regarding sales promotion. It enables the producer to know what motive prompts consumer to make purchase and the same are utilised in promotional campaigns to awaken desire to purchase.

**5. Exploiting marketing opportunities**

Study of consumer behaviour helps the marketers to understand the consumers needs, aspirations, expectations, problems

etc. This knowledge will be useful to the marketers in exploiting marketing opportunities and meeting the challenges of the market.

#### 6. **Consumer do not always act or react predictably**

The consumers of the past used to react to price levels as if price and quality had positive relation. Today, we value for money, lesser price but with superior features. The consumers response indicates that the shift had occurred.

#### 7. **Highly diversified consumer preferences**

This shift has occurred due to availability of more choice now. Thus study of consumer behaviour is important to understand the changes.

#### 8. **Rapid Introduction of New Products**

Rapid introduction of new product with technological advancement has made the job of studying consumer behaviour more imperative. For example, the information Technologies are changing very fast in personal computer industry.

#### 9. **Implementing the "Marketing concept"**

This calls for studying the consumer behaviour, all customers need have to be given priority. Thus identification of target market before production becomes essential to deliver the desired customer satisfaction and delight.

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

##### 1. **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.

##### 2. **Sub-Cultures**

Sub-cultures 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 sub-cultures. 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.

##### 3. **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 hotel; cater to the tastes of the elite class.

##### 4. **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.

##### 5. **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.

### 2.3 CONSUMER EXPECTATIONS IN SERVICE

**Q4. Define Customer expectations in Services. Explain the concept of customer service expectations.**

*Ans :*

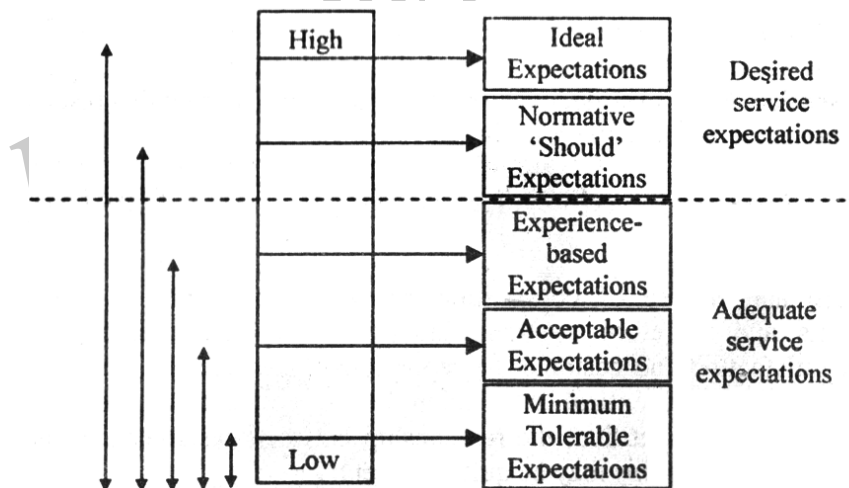
(May-19, Imp.)

Customers buy goods and services to meet specific needs. Needs are often deeply rooted in people's unconscious minds and may concern long-term existence and identity issues. When people feel a need, they are motivated to take action to fulfill it. In many instances, purchase of a good or service may be seen as offering the best solution to meeting a particular need. Subsequently, consumers may compare what they received against what they expected, especially if it cost them money, time, or effort that could have been devoted to obtaining an alternative solution.

Customer expectations are beliefs about service delivery that function as standards or reference points against which performance is judged. Because customers compare their perceptions of performance with these reference points when evaluating service quality, thorough knowledge about customer expectations is critical to services marketers. Knowing what the customer expects is the first and possibly most critical step in delivering quality service. Being wrong about what customers want can mean losing a customer's business when another company hits the target exactly. Being wrong can also mean expending money, time, and other resources on things that don't count to the customer. Being wrong can even mean not surviving in a fiercely competitive market.

#### **Types Levels of Customer Service Expectations**

Two levels of customer service expectations can be seen in figure 5. These two levels of customer service expectations are also known as the types of customer service expectations.



**Fig. : Types/ Two Levels of Customer Service Expectations**

Customers hold different types of expectations about service. Service expectations are broadly classified into two types as follows:

#### **1. Desired Service Expectations**

It means the level of service customer hopes to receive. Desired service is a blend of what the customer believes "can be" and "should be". Desired service expectations are further classified into two types which as follows:

- i) **Ideal Expectations:** This is the highest degree of customer service expectations. At this level, customer does want to adjust a bit with his/her expectations. For example, everyone says this restaurant is as good as one in Delhi and a person want to go somewhere very special for his/her anniversary.
- ii) **Normative Expectations:** This is the second highest degree of expectations and at this level customer have a pre-decided mindset that service "should be" beyond or at par with respect to a particular expected level. For example, as expensive as this restaurant is, it ought to have excellent food and service.

## 2. Adequate Service Expectations

Adequate service expectation is the service expectation which has the minimum there should level, which is acceptable by the customer. According to these expectations, the services, at this point are acceptable to customer but not so as desired by customer. Adequate service expectations are further classified into three types which are as follows:

- i) **Experience-Based Expectations:** Customer makes expectations about services according to the past interactions or experiences about the services. For example, most times this restaurant is very good, but when it gets busy the service becomes low.
- ii) **Acceptable Expectations:** Customers draw their own inferences about services due to some specific reasons for acceptability. For example, one expects the restaurant is very good, and to serve him/her in an adequate manner because of its charges.
- iii) **Minimum tolerable Expectations :** These are the boundary line of lowest level degree. Low beyond this level, customer will not accept service. For example, one expects terrible service from this restaurant, but come because the price is low.

## Factors Influencing Customer Expectations in Services.

Service providers should have knowledge of the factors that influence customer expectations of service. These factors can be studied under various heads, namely

1. Factors that influence customer expectations of desired service.
2. Factors that influence customer expectations of adequate service and lastly,
3. Factors that influence both desired and predicted service expectations of a customer

### 1. Factors that Influence Customer Expectations of Desired Service

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

- i) 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 is thirsty enter the same restaurant, their desired service expectations differ based on their most important need at the moment. While the customer who is hungry expects the waiter to immediately serve him the food he orders, the customer who is thirsty expects the waiter to first serve him some cold water to drink.
- ii) Enduring service intensifiers are of two types, namely, derived service expectations of a customer and his philosophy regarding the service.
- iii) 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 number going on the outing.

- iv) 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 in the past.

## 2. Factors that Influence Customer Expectations of Adequate Service

Customer expectations of adequate service are influenced by various factors such as:

- a) Transitory service intensifiers
- b) Perceived service alternatives
- c) Customer self-perceived service role
- d) Situational factors and
- e) Predicted service.
- a) **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.
- b) **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.
- c) **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.

- d) **Situational factors** are the factors which make a customer compromise on his adequate service expectations on learning that the conditions of service delivery are no under the control of the service provider.
- e) **Predicted service** expectations of a customer can be defined as the level of service a customer believes he will receive from a service provider.

## 3. 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.

- a) **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.
- b) **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.
- c) **Word-of-mouth publicity:** These include views or opinions of customers who have already used the service, or surveys conducted by experts.
- d) **Past experience:** A customer's past experience influences his current expectations of service.

**Q5. Criteria to evaluate a service based on customer's service expectations.***Ans :*

Customers evaluate their service experience based on the following criteria.

**1. 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.

**2. 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 courier 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.

**3. 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.

**4. 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.

**Managing Customer Expectations**

Managing customer expectations is a critical component in the marketing plan of a service business. Consumer expectations must be managed during the pre-purchase phase, the service encounter and the post-purchase phase. Customer expectations can be managed during each phase of the purchase process.

**1. During the Pre-Purchase Phase: Managing customer expectations during the pre-purchase phase consist of three steps which are as follows:****i) Learn what Customers Expect:**

Learning customer expectations during the pre-purchase phase requires communication. Service personnel and sales personnel must ask questions and be willing to listen.

**ii) Tell Customers what they can Expect:**

The strategy for managing customer expectations during the pre-purchase phase is to tell customers what they can expect. Advertising, sales personnel, service personnel, tangible cues, point-of-purchase displays and sales promotions are some of the methods that can be used.

Service firms must be careful, however, to communicate accurate information. Sales personnel are often tempted to promise services that the firm does not or cannot provide. Salespeople have learned that by increasing expectations they will increase the likelihood of a purchase. The same temptation is faced by the advertising department. Advertisers know that to increase purchases, they must make the service firm attractive. Businesses must resist the temptation to over-promise and should promise only what can and will be provided.

**iii) Consistently Provide the Service that Customers Expect:**

This strategy consists of providing consistent service. Past experience and word-of-mouth are two critical variables used by consumers



in making purchase decisions. By providing consistent service, customers form concrete expectations and tend to continue patronizing the same firm. Buyers will also convey positive word-of-mouth communication to other potential customers.

**2. During the Service Encounter:** Three strategies can be used during the service encounter to manage customer expectations which are as follows:

- i) Service personnel must communicate with the customer during the service encounter.
- ii) If possible, service providers should modify the service to meet the customer's expectations.
- iii) If the service cannot be modified, the service personnel should explain why the customer's expectations cannot be met. The goal during this phase is to ensure the service being provided matches the consumer's expectations.

**3. During the Post-Purchase Phase:** Managing consumer expectations do not stop after the service is performed. Service firms have three strategies they can use after the service has been completed which are as follows:

- i) Companies should communicate with customers immediately after the service is completed to see if expectations were met.
- ii) Firms can use a follow-up program, such as an evaluation survey sent to the customer through the mail or a phone call.
- iii) Companies should have a procedure for dealing with dissatisfied customers that will assist in managing future expectations. The goal during this phase is two-fold. The primary goal is to communicate with customers to see if expectations were met. The secondary goal is to modify future expectations to increase the chances of repeat purchases.

Upon the completion of a service, service personnel should talk with customers about the service. If customer expectations have been met, the probability of the customer coming back is greatly increased.

Some services are difficult for customers to evaluate immediately, so follow-up calls are an effective way to manage customer expectations.

If customer expectations have not been met, the service provided was below the adequate service level and outside of the tolerance zone. Future expectations of the firm and future patronage will depend upon how the firm handles dissatisfied customers.

## 2.4 CONSUMER PERCEPTIONS OF SERVICE

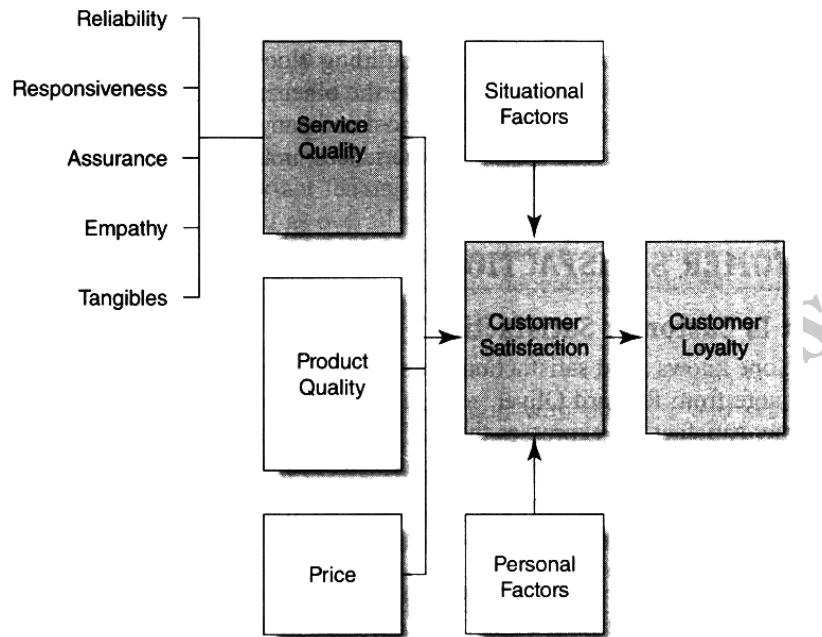
**Q6. Discuss about Consumer Perceptions of Service.**

*Ans :*

Consumer perception applies the concept of sensory perception to marketing and advertising. Just as sensory perception relates to how humans perceive and process sensory stimuli through their five senses, consumer perception pertains to how individuals form opinions about companies and the merchandise they offer through the purchases they make. Merchants apply consumer perception theory to determine how their customers perceive them. They also use consumer perception theory to develop marketing and advertising strategies intended to retain current customers - and attract new ones.

### Satisfaction versus Service Quality

Practitioners and writers in the popular press tend to use the terms *satisfaction* and *quality* interchangeably, but researchers have attempted to be more precise about the meanings and measurement of the two concepts, resulting in considerable debate. Consensus is that the two concepts are fundamentally different in terms of their underlying causes and outcomes. Although they have certain things in common, *satisfaction* is generally viewed as a broader concept, whereas *service quality* focuses specifically on dimensions of service. Based on this view, *perceived service quality* is a component of customer satisfaction. Figure below graphically illustrates the relationships between the two concepts.



**Fig. : Customer Perceptions of Quality and Customer Satisfaction**

As shown in Figure above, service quality is a focused evaluation that reflects the customer's perception of reliability, assurance, responsiveness, empathy, and tangibles. Satisfaction, on the other hand, is more inclusive: it is influenced by perceptions of service quality, product quality, and price, as well as situational factors and personal factors.

For example, service quality of a health club is judged on attributes such as whether equipment is available and in working order when needed, how responsive the staff are to customer needs, how skilled the trainers are, and whether the facility is well maintained. Customer satisfaction with the health club is a broader concept that will certainly be influenced by perceptions of service quality but that will also include perceptions of product quality (such as the quality of products sold in the pro shop), the price of membership, personal factors such as the consumer's emotional state, and even uncontrollable situational factors such as weather conditions and experiences driving to and from the health club.

### Transaction versus Cumulative Perceptions

In considering perceptions, it is also important to recognize that customers will have perceptions of single, transaction-specific encounters as well as overall perceptions of a company based on all their experiences. For example, a bank customer will have a perception of how he was treated in a particular encounter with an employee at a branch and will form a perception of that transaction based on elements of the service experienced during that transaction. That perception is at a very micro, transaction-specific level.

The same bank customer will also have overall perceptions of the bank based on all his encounters over a period of time. The experiences might include multiple in-person encounters at the bank branch, online banking experiences, and experiences using the bank's ATMs across many cities. At an even more general level, the customer may have perceptions of banking services or the whole banking industry as a result of all his experiences with banks and everything he knows about banking.

Research suggests that it is important to understand all these types of perceptions for different reasons and that the viewpoints are complementary rather than competing. Understanding perceptions at the transaction-specific level is critical for diagnosing service issues and making immediate changes. These isolated encounters are also the building blocks for overall, cumulative experience evaluations, as you will learn later in this chapter. On the other hand, cumulative experience evaluations are likely to be better predictors of overall loyalty to a company. That is, customer loyalty most often results from the customer's assessment of all her experiences, not just one encounter.

### 2.4.1 Customer Perception

#### Q7. Explain the Customer Perception.

*Ans :*

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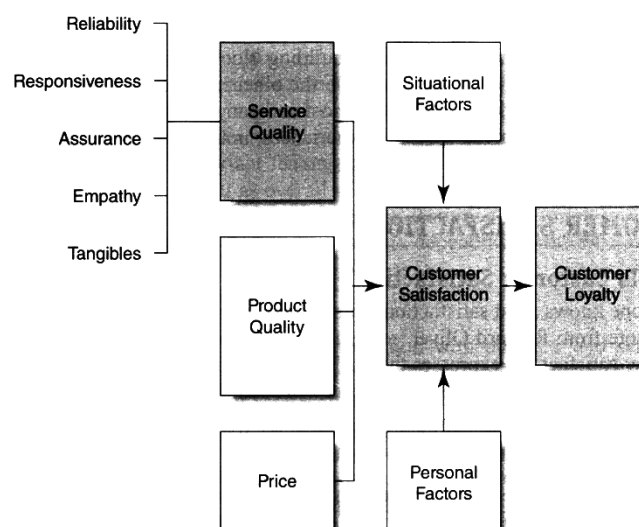


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### 2.4.2 Customer Satisfaction

#### Q8. Explain about Customer Satisfaction.

*Ans :* (May-19, Imp.)

Satisfaction is the consumer's fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provides a pleasurable level of consumption-related fulfillment.

In less technical terms, we interpret this definition to mean that *satisfaction* is the customer's evaluation of a product or service in terms of whether that product or service has met the customer's need and expectations. Failure to meet needs and expectations is assumed to result in dissatisfaction with the product or service.

#### What Determines Customer Satisfaction?

Customer satisfaction is influenced by specific product or service features, perception of product and service quality, and price. In addition, personal factors such as the customer's mood or emotional state and situational factors such as family member opinions influence satisfaction.

#### 1. Product and Service Features

Customer satisfaction with a product or service is influenced significantly by the customer's evaluation of product or service features. For a service such as a resort hotel, important features might include the pool area, access to golf facilities, restaurants, room comfort and privacy, the helpfulness and courtesy of staff, room price, and so forth. In conducting

satisfaction studies, most firms determine through some means (often focus groups) what the important features and attributes are for their service and then measure perceptions of those features as well as overall service satisfaction.

Research has shown that customers of services make trade-offs among different service features (e.g., price level versus quality versus friendliness of personnel versus level of customization), depending on the type of service being evaluated and the criticality of the service.

## 2. Customer Emotions

Customers' emotions can also affect their perceptions of satisfaction with products and services. These emotions can be stable, preexisting emotions—for example, mood state or life satisfaction. Think of times when you are at a very happy stage in your life (such as when you are on vacation), and your good, happy mood and positive frame of mind have influenced how you feel about the services you experience. Alternatively, when you are in a bad mood, your negative feelings may carry over into how you respond to services, causing you to overreact or respond negatively to any little problem.

## 3. Attributions for Service Success or Failure

Attributions—the perceived causes of events—influence perceptions of satisfaction as well. When customers have been surprised by an outcome (the service is either much better or much worse than expected), they tend to look for the reasons, and their assessments of the reasons can influence their satisfaction.

## 4. National Customer Satisfaction Indexes

Because of the importance of customer satisfaction to firms and overall quality of life, many countries have a national index that measures and tracks customer satisfaction at a macro level. Many public policymakers believe that these measures could and should be used as tools for evaluating the health of the nation's economy, along with traditional measures of productivity and price. Customer

satisfaction indexes begin to get at the quality of economic output, whereas more traditional economic indicators tend to focus only on quantity.

## 5. The American Customer Satisfaction Index

The American Customer Satisfaction Index (ACSI), developed by researchers at the National Quality Research Center at the University of Michigan, is a measure of satisfaction with goods and services. The measure tracks, on a quarterly basis, customer perceptions across 200 firms representing all major economic sectors, including government agencies.

Within each industry group, major industry segments are included, and within each industry, the largest companies in that industry are selected to participate. For each company approximately 250 interviews are conducted with current customers. Each company receives an ACSI score computed from its customers' perceptions of quality, value, satisfaction, expectations, complaints, and future loyalty.

### 2.5 UNDERSTANDING CONSUMER REQUIREMENTS

#### Q9. Write about understanding consumer requirements.

*Ans :*

Understanding customers is the key to giving them good service. To give good customer care you must deliver what you promise. But great customer care involves getting to know your customers so well that you can anticipate their needs and exceed their expectations.

To understand your customers well, you need to be attentive to them whenever you are in contact with them. The potential rewards are great: you can increase customer loyalty and bring in new business through positive word-of-mouth recommendation.

There are three main ways to understand your customers better. One is to put yourself in their shoes and try and look at your business from their

point of view. The second way is to collect and analyse data in order to shed light on their buying behavior. The third way is simply to ask them what they think.

### Customer Needs and Expectations Examples

Customer expectations may also vary from one industry to another, reflecting industry reputations and past experience. In many countries, people have lower expectations of government service providers than they do of private companies.

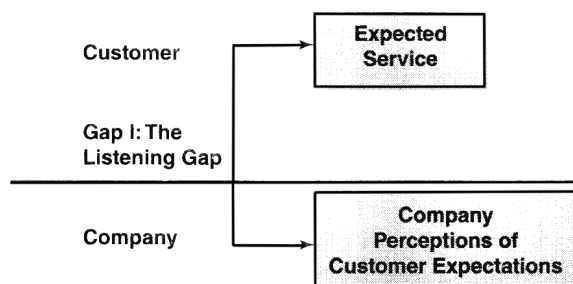
Expectations may even vary within different demographic groups (e.g., between men and women, older and younger consumers, or blue-versus white-collar workers). To make things more complicated, expectations also differ from country to country. For instance, while it may be acceptable and unsurprising for a train to arrive several hours late in some countries, rail schedules are so precise in Switzerland that the margin for error is measured in seconds.

#### 2.5.1 Listening Gap

**Q10. Write about listening gap.**

*Ans :*

Not knowing what customers expect is one of the root causes of not delivering to customer expectations. Provider gap 1, the listening gap, is the difference between customer expectations of service and company understanding of those expectations. Note that in the accompanying figure we created a link between the customer and the company, showing customer expectations above the line that dissects the model and provider perceptions of those expectations below the line. This alignment signifies that what customers expect is not always the same as what companies believe they expect.



**Fig. : Provider Gap 1 : The Listening Gap**

We detail ways that companies listen to customers through research. Both formal and informal methods of customer research are described, including surveys, critical incident studies, and complaint solicitation. Upward communication from frontline employees to managers, another key factor in listening to customers, is also discussed.

#### 2.5.2 Listening to Customers through Research

**Q11. Discuss about listening to customers through research.**

*Ans :*

Despite a genuine interest in meeting customer expectations, many companies miss the mark by thinking inside out - they believe they know what customers should want and deliver that, rather than finding out what they do want. When this happens, companies provide services that do not match customer expectations: important features are left out, and the levels of performance on features that are provided are inadequate. Because services have few clearly defined and tangible cues, this difficulty may be considerably larger than it is in manufacturing firms.

A far better approach involves thinking outside in - determining customer expectations and then delivering to them. Thinking outside in uses marketing research to understand customers and their requirements fully. Marketing research, the subject of this chapter, involves far more than conventional surveys. It consists of a portfolio of listening strategies that allow companies to deliver service to customer expectations.

#### Using Marketing Research to Understand Customer Expectations

Finding out what customers expect is essential to providing service quality, and marketing research is a key vehicle for understanding customer expectations and perceptions of services. In services, as with any offering, a firm that does no marketing research at all is unlikely to understand its customers. A firm that does marketing research, but not on the topic of customer expectations, may also fail to know what is needed to stay in tune with changing customer requirements.

Marketing research must focus on service issues such as what features are most important to customers, what levels of these features customers expect, and what customers think the company can and should do when problems occur in service delivery. Even when a service firm is small and has limited resources to conduct research, avenues are open to explore what customers expect.

We discuss the elements of services marketing research programs that help companies identify customer expectations and perceptions. In the sections that follow, we will discuss ways in which the tactics of general marketing research may need to be adjusted to maximize its effectiveness in services.

### **A) Research Objectives for Services**

The first step in designing services marketing research is without doubt the most critical: defining the problem and research objectives. This is where the services marketer poses the questions to be answered or problems to be solved with research. Does the company want to know how customers view the service provided by the company, what customer requirements are, how customers will respond to a new service introduction, or what customers will want from the company five years from now? Each of these research questions requires a different research strategy. Thus, it is essential to devote time and resources to define the problem thoroughly and accurately. In spite of the importance of this first stage, many marketing research studies are initiated without adequate attention to objectives.

Research objectives translate into action questions. While many different questions are likely to be part of a marketing research program, the following are the most common research objectives in services:

- To discover customer requirements or expectations for service.
- To monitor and track service performance.
- To assess overall company performance compared with that of competition.
- To assess gaps between customer expectations and perceptions.

- To identify dissatisfied customers so that service recovery can be attempted.
- To gauge effectiveness of changes in service delivery.
- To appraise the service performance of individuals and teams for evaluation, recognition, and rewards.
- To determine customer expectations for a new service.
- To monitor changing customer expectations in an industry'.
- To forecast future expectations of customers.

These research objectives are similar in many ways to the research conducted for physical products: both aim to assess customer requirements, dissatisfaction, and demand. Services research, however, incorporates additional elements that require specific attention.

First, services research must continually monitor and track service performance because performance is subject to human variability and heterogeneity. Conducting performance research at a single point in time, as might be done for a physical product such as an automobile, would be insufficient in services. A major focus of services research involves capturing human performance - at the level of individual employee, team, branch, organization as a whole, and competition. Another focus of services research involves documenting the process by which service is performed. Even when service employees are performing well, a service provider must continue to track performance because the potential for variation in service delivery always exists.

A second distinction in services research is the need to consider and monitor the gap between expectations and perceptions. This gap is dynamic because both perceptions and expectations fluctuate.

### **B) Criteria for an Effective Services Research Program**

A services research program can be defined as the composite of separate research studies and types needed to address research objectives and execute an overall measurement strategy. Many

types of research could be considered in a research program. Understanding the criteria for an effective services research program will help a company evaluate different types of research and choose the ones most appropriate for its research objectives. In this section we discuss these criteria.

**1. Includes Qualitative and Quantitative Research**

Marketing research is not limited to surveys and statistics. Some forms of research, called qualitative research, are exploratory and preliminary and are conducted to clarify problem definition, prepare for more formal research, or gain insight when more formal research is not necessary.

Quantitative research in marketing is designed to describe the nature, attitudes, or behaviors of customers empirically and to test specific hypotheses that a services marketer wants to examine. These studies are key for quantifying the customers' satisfaction, the importance of service attributes, the extent of service quality gaps, and perceptions of value. Such studies also provide managers with yardsticks for evaluating competitors. Finally, results from quantitative studies can highlight specific service deficiencies that can be more deeply probed through follow-up qualitative research.

**2. Includes Both Perceptions and Expectations of Customers**

Expectations serve as standards or reference points for customers. In evaluating service quality, customers compare what they perceive they get in a service encounter with their expectations of that encounter. For this reason, a measurement program that captures only perceptions of service is missing a critical part of the service quality equation. Companies need also to incorporate measures of customer expectations.

Measurement of expectations can be included in a research program in multiple ways. First, basic research that relates to customers' requirements—that identifies the service features or attributes that matter to customers—can be considered expectation

research. In this form, the content of customer expectations is captured, initially in some form of qualitative research such as focus group interviews. Research on the levels of customer expectations also is needed. This type of research quantitatively assesses the levels of customer expectations and compares these with perception levels, usually by calculating the gap between expectations and perceptions.

**3. Balances the Cost of the Research and the Value of the Information**

An assessment of the cost of research compared with its benefits or value to the company is another key criterion. One cost is monetary, including direct costs to marketing research companies, payments to respondents, and internal company costs incurred by employees collecting the information.

Time costs are also important, including the time commitment needed internally by employees to administer the research and the interval between data collection and availability for use by the firm. These and other costs must be weighed against the gains to the company in improved decision making, retained customers, and successful new product launches. As in many other marketing decisions, costs are easier to estimate than the value of the information.

**4. Includes Statistical Validity When Necessary**

We have already shown that research has multiple and diverse objectives. These objectives determine the appropriate type of research and methodology. To illustrate, some research is used by companies not so much to measure as to build relationships with customers - to allow contact employees to find out what customers desire, to diagnose the strengths and weaknesses of their and the firm's efforts to address the desires, to prepare a plan to meet requirements, and to confirm after a period of time (usually one year) that the company has executed the plan. The underlying objective of this type of research



is to allow contact people to identify specific action items that will gain the maximum return in customer satisfaction for individual customers. This type of research does not need sophisticated quantitative analysis, anonymity of customers, careful control of sampling, or strong statistical controls.

#### 5. Measures Priorities or Importance

Customers have many service requirements, but not all are equally important. One of the most common mistakes managers make in trying to improve service is spending resources on the wrong initiatives, only to become discouraged because customer perceptions of the firm's service does not improve! Measuring the relative importance of service dimensions and attributes helps managers to channel resources effectively; therefore, research must document the priorities of the customer.

Prioritization can be accomplished in multiple ways. Direct importance measures ask customers to prioritize items or dimensions of service. Several alternatives are available for measuring importance directly, among them asking respondents to rank-order service dimensions or attributes, or to rate them on a scale from "not at all important" to "extremely important." Another effective approach involves asking respondents to allocate a total of 100 points across the various service dimensions.

#### 6. Occurs with Appropriate Frequency

Because customer expectations and perceptions are dynamic, companies need to institute a service quality research process, not just do isolated studies. A single study of service provides only a "snapshot" view of one moment in time. For full understanding of the marketplace's acceptance of a company's service, marketing research must be ongoing. Without a pattern of studies repeated with appropriate frequency, managers cannot tell whether the firm is moving forward or falling back and which of their service improvement initiatives are working.

#### 7. Includes Measures of Loyalty, Behavioral Intentions, or Behavior

An important trend in services research involves measuring the positive and negative consequences of service quality along with overall satisfaction or service quality scores. Among the most important generic behavioral intentions are willingness to recommend the service to others and repurchase intent. These behavioral intentions can be viewed as positive and negative consequences of service quality. Positive behavioral intentions include saying positive things about the company, recommending the company to others, remaining loyal, spending more with the company, and paying a price premium.

### 2.6 BUILDING CUSTOMER RELATIONSHIPS / RELATIONSHIP MARKETING

#### Q12. Examine the ways and means of building customers relationships.

*Ans :* (Sep.-20, Imp.)

Relationship marketing is an integrated effort to identify, maintain, and build a network with individual customers and to continuously strengthen the network for the benefit of both the sides, through interactive, individualized, and value added contacts over a long period of time.

**According to Professor Philip Kotler,** "Relationship marketing is the process of building long term, trusting, and win-win relationship with customers, distributors, dealers and suppliers. Over time, relationship marketing promises and delivers high quality, efficient service and fair prices to the other party. It is accomplished by strengthening economic, technical and social ties between members of two organizations or between the marketer and the individual customer".

**According to Morgan and Hunt,** "All marketing efforts directed towards establishing, developing, and maintaining successful relational exchanges."

**According to Moller and Wilson,** "Relationship marketing is about understanding, creating, and managing exchange relationships

between economic partners; manufacturers, service providers, various channel members, and final consumers."

Few of the key elements, which give a broader perspective of this new customer relationship marketing, are :

1. Interaction between suppliers and customers is moving from a transaction one to a relationship focused one.
2. The relationship marketing emphasizes on maximizing the life time value of customer segments and on enhancing customer satisfaction.
3. Relationship marketing is concerned with working, developing and enhancing relationships with 'internal' markets within the organization and building substantial 'external' relationships with customers, suppliers, referral source, influence markets and recruitment markets.

### Evolution of customer relationships

Firms' relationships with their customers, like other social relationships, tend to evolve over time. Scholars have suggested that marketing exchange relationships between providers and customers often have the potential to evolve from strangers to acquaintances to friends to partners.

#### 1. Customers as Strangers

Strangers are those customers who have not yet had any transactions (interactions) with a firm and may not even be aware of the firm. At the industry level, strangers may be conceptualized as customers who have not yet entered the market; at the firm level, they may include customers of competitors.

Clearly the firm has no relationship with the customer at this point. Consequently, the firm's primary goal with these potential customers ("strangers") is to initiate communication with them to attract them and acquire their business. Thus, the primary marketing efforts directed toward such customers deal with familiarizing those potential customers with the firm's offerings and, subsequently, encouraging them to give the firm a try.

#### 2. Customers as Acquaintances

Once customer awareness and trial are achieved, familiarity is established and the customer and the firm become acquaintances, creating the basis for an exchange relationship. A primary goal for the firm at this stage of the relationship is satisfying the customer. In the acquaintance stage, firms are generally concerned about providing a value proposition to customers comparable with that of competitors.

For a customer, an acquaintanceship is effective as long as the customer is relatively satisfied and what is being received in the exchange is perceived as fair value. With repetitive interactions, the customer gains experience and becomes more familiar with the firm's offerings. These encounters can help reduce uncertainty about the benefits expected in the exchange and, therefore, increase the attractiveness of the company relative to the competition. Repetitive interactions improve the firm's knowledge of the customer, helping to facilitate marketing, sales, and service efforts. Thus, an acquaintance relationship facilitates transactions primarily through the reduction of the customer's perceived risk and the provider's costs.

#### 3. Customers as Friends

As a customer continues to make purchases from a firm and to receive value in the exchange relationship, the firm begins to acquire specific knowledge of the customer's needs, allowing it to create an offering that directly addresses the customer's situation. The provision of a unique offering, and thus differential value, transforms the relationship from acquaintance to friendship.

This transition, particularly in service exchange relationships, requires the development of trust. Because customers may not be able to assess a service outcome prior to purchase and consumption, they may not be able to discern service performance even after experiencing it and, therefore, must trust the provider to do what is promised. As customers become friends they not only become familiar with the company but also come to trust that it provides superior value.

#### 4. Customers as Partners

As a customer continues to interact with a firm, the level of trust often deepens and the customer may receive more customized product offerings and interactions. The trust developed in the friendship stage is a necessary but not sufficient condition for a customer-firm partnership to develop. That is, the. Nation of trust leads to (ideally) the creation of commitment - and that is the condition necessary for customers to extend the time perspective of a relationship.

The deepening of trust and the establishment of commitment reduce the customer's need to solve problems in the traditional sense of "finding a better alternative." Thus, to move the relationship into a partner relationship, a firm must use customer knowledge and information systems to deliver highly personalized and customized offerings.

#### Goals of Relationship Marketing

There are essentially four goals to be achieved in relationship marketing. They are :

##### 1. Getting Customers

The primary goal of relationship marketing is to build and maintain a base of committed customers who are profitable for the organization. To achieve this goal, the firm will focus on the attraction, retention, and enhancement of customer relationships. First the firm will seek to attract customers who are likely to become long-term relationship customers. Through market segmentation the company can come to understand the best target markets for building lasting customer relationships. As the number of these relationships grows, the loyal customers themselves will frequently help to attract (through word of mouth) new customers with similar relationship potential.

##### 2. Satisfying Customers

The goal is to build long-term relationships. The maintenance of relationship is possible only when a company fulfills its promises to the satisfaction of the respective parties. Anyone will prefer to continue the relationship

for a long-term if he/she considers the relationship beneficial. Research studies have shown that retaining a party is less costly than building a relationship with a new party. Companies enjoy a number of benefits with the continuation of relationships. Apart from the economies, organizations will gain free advertising through word- of-mouth, employee retention, risk minimization and, more importantly, greater psychological strength to face competition in the market.

##### 3. Retaining Customers

Once they are attracted to begin a relationship with the company, customers will be more likely to stay in the relationship when they are consistently provided with quality products and services and good value over time. They are less likely to be pulled away by competitors if they feel the company understands their changing needs and seems willing to invest in the relationship by constantly improving and evolving its product and service mix.

##### 4. Enhancing Customers

Companies should strive for promoting relationships beyond the line of transactions. They have to build relationships that are more rewarding. They have-to carefully promote each party from the stage of prospect to buyer, buyer to customer, customer to client, client to supporter, supporter to an advocate and advocate to a partner in the hierarchy of relationships. Moving the parties up in the loyalty ladder is not a simple task. The organization has to show a lot of care and concern in addition to offering special beneficial packages to the customers.

#### Benefits for Customers and Firm

Both parties in the customer-firm relationship can benefit from customer retention. That is, it is not only in the best interest of the organization to build and maintain a loyal customer base, but customers themselves also benefit from long-term associations.

##### 1. Benefits for Customers

Assuming they have a choice, customer will remain loyal to a firm when they receive

greater value relative to what they expect from competing firms. Value represents a trade-off for the consumer between the “give” and the “get” components. Consumers are more likely to stay in a relationship when the gets (quality, satisfaction, specific benefits) exceed the gives (monetary and non-monetary costs). When firms can consistently deliver value from the customer’s point of view, clearly the customer benefits have an incentive to stay in the relationship.

Beyond the specific inherent benefits of receiving service value, customers also benefit in other ways from long-term associations with firms. Sometimes these relationship benefits keep customers loyal to a firm more than the attributes of the core service. Research has uncovered specific types of relational benefits that customers experience in long-term service relationships including confidence benefits, social benefits, and special treatment benefits:

- i) **Confidence Benefits:** These benefits comprise feelings of trust or confidence in the provider, along with a sense of reduced anxiety and comfort in knowing what to expect. Across all of the services studied in the research just cited, confidence benefits were the most important to customers.

Human nature is such that most consumers would prefer not to change service providers, particularly when there is a considerable investment in the relationship. The costs of switching are frequently high in terms of dollar costs of transferring business and the associated psychological and time-related costs.

- ii) **Social Benefits:** Over time, customers develop a sense of familiarity and even a social relationship with their service providers. These ties make it less likely that they will switch even if they learn about a competitor that might have better quality or a lower price.

In some long-term customer-firm relationships a service provider may

actually become part of the consumer’s social support system. For example, proprietors of local retail stores who become central figures in neighborhood networks; the health club or restaurant manager who know her customers personally; the private school principal who knows an entire family and its special needs; or the river guide who befriends patrons on a long rafting trip.

- iii) **Special Treatment Benefits:** Special treatment includes such things as getting the benefit of the doubt, being given a special deal or price, or getting preferential treatment.

Interestingly, the special treatment benefits, while important, were less important than the other types of benefits received in service relationships. Although special treatment benefit can clearly be critical for customer loyalty in some industries (think of frequent flyer benefits in the airline industry), they seem to be less important to customers overall.

## 2. Benefits for the Organization

The benefits to an organization of maintaining and developing a loyal customer base are numerous:

- i) **High Return on Investment :** Relationship-oriented business-to-business service firms achieve higher overall returns on their investments than do transaction-oriented firms. These bottom-line benefits come from a variety of sources including increased revenues over time from the customer, reduced marketing and administrative costs, and the ability to maintain margins without reducing prices. Here some of the benefits that firms receive from long-term customer relationships are given.

As consumers get to know a firm and are satisfied with the quality of its services relative to that of its competitors, they tend to give more of their business to the firm.

- ii) **Lower Cost:** Another benefit of long-term relationships is lower costs. There are many, start-up costs associated with attracting new customers. They include advertising and other promotion costs, operating costs of setting up accounts and systems, and time costs of getting to know the customers. Sometimes these initial costs can outweigh the revenue expected from the new customers in the short-term. Even ongoing relationship maintenance costs are likely to drop over time.

For example, early in a relationship a customer is likely to have questions and to encounter problems as he or she learns to use the service. Once learning has taken place the customer will have fewer problems and questions (assuming the quality of service is maintained at a high level), and the service provider will incur fewer costs in serving the customer.

- iii) **Word-of-Mouth Advertising :** Another benefit to firms is free advertising through word of mouth. When a product is complex and difficult to evaluate, and there is risk involved in the decision to buy it - as is the case with many services - consumers most often look to others for advice on which, providers to consider. Satisfied, loyal customers are likely to provide a firm with strong word-of-mouth endorsements. This form of advertising can be more effective than any paid advertising the firm might use, and it has the added benefit of reducing the costs of attracting new customers.
- iv) **Employee Retention:** An indirect benefit of customer retention is employee retention. It is easier for a firm to retain employees when it has a stable base of satisfied customers. People like to work for companies whose customers are happy and loyal. Their jobs are more satisfying, and they are able to spend more of their time fostering relationships than scrambling for new customers. In turn, customers are more satisfied and become even better customers - a positive upward spiral. Because

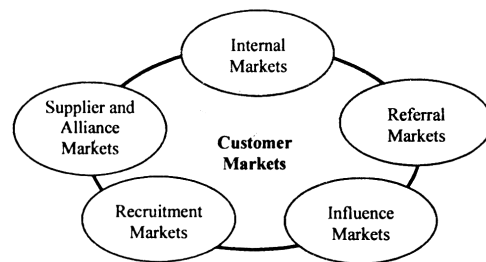
employees stay with the firm longer, service quality improves and costs of turnover are reduced, adding further to profits.

### 2.6.1 Six Market Frames

**Q13. Write about segment's.**

*Ans :*

The six-market framework includes :



**Fig.: Six Market Segments**

1. **Customer Markets:** Relationship marketing is valued by the customer. For businesses offering professional or financial services, regularly replaced consumer durables such as cars, and for many organizations involved in business to business marketing, the long-term investment in building relationships with individual customers is easily justified.
2. **Referral Markets:** Referrals can be a decisive element in the creation of relationships between an organization and its customers. The professional services sector has always used informal networks and reciprocal referrals to direct business towards established contacts. Word-of-mouth recommendations are certainly known to be an important part of the information search undertaken by consumers before buying high value or high risk services.
3. **Internal Markets:** Judd observed that substantive attempts to conceptualize the employee of an organization as an element of the organization's marketing strategy were noticeably absent from the academic marketing literature. There is now an abundance of 'internal marketing' literature addressing the matter, providing insights into how and why employees in all parts of an organization can contribute towards marketing effectiveness.

4. **Recruitment Markets:** The move away from traditional employment practices towards contract working, outsourcing and partnering allows organizations to access a wider range of specialist skills on a temporary basis. Nevertheless, there are certain categories of employees whose skills and experience create and sustain the organization's core competencies.
5. **Influence Markets:** Whereas Webster and Winds list influencers and gatekeepers among the members of a buying unit within the firm, Christopher, Payne and Ballantyne look beyond the confines of customers' internal buying units and into the wider business environment. They apply the term 'influencer' to a range of third parties who exercise influence over the organization and its potential customers.
6. **Supplier Markets:** Relationships with suppliers have been the focus of a great deal of interest in articles on relationship marketing in recent years, as the point where the marketing and network literature most clearly merge. The traditional adversarial approach to procurement that played multiple suppliers off against each other began to take on a more cooperative nature. This followed the gradual realization that, when suppliers were squeezed to the point of collapse, they were unwilling and unable to invest in the new plant and technologies required to allow them to deliver better products and services, faster and more cheaply.

### 2.6.2 Customer Probability Segments

**Q14. Explain about customer probability segments.**

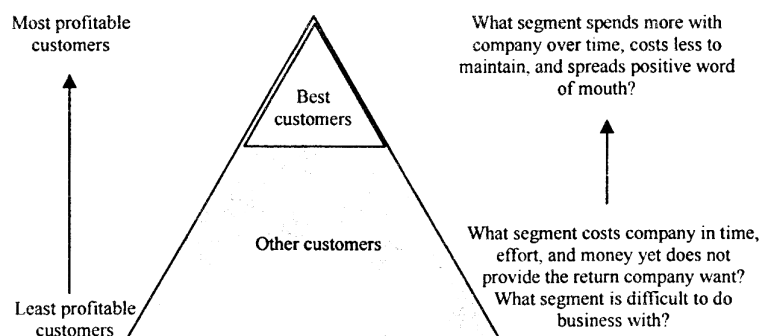
*Ans :*

Service companies today are beginning to recognize that not all customers are worth attracting and keeping. Companies may want to treat all customers with superior service, but they find it is neither practical nor profitable to meet (and certainly not to exceed) all customers' expectations. To build and improve upon traditional segmentation, companies are now trying to identify segments - or, more appropriately, tiers of customers - that differ in current and/or future profitability to a firm.

This approach goes beyond usage or volume segmentation because it tracks costs and revenues for segments of customers, thereby capturing their financial worth to companies. After identifying profitability bands, the firm offers services and service levels in line with the identified segments. Building a high loyalty customer base of the right customers increases profits.

#### 1. The 80:20 Customer Pyramid

Virtually, all firms are aware at some level that their customers differ in profitability - in particular that a minority of their customers accounts for the highest proportion of sales or profit. This has often been called the "80/20 rule" - 20 per cent of customers produce 80 per cent of sales or profit. This 80/20 customer pyramid is shown in figure below.



**Fig.: 80/20 Customer Pyramid**

In this version of tiering, 20 per cent of the customers constitute the top tier, those who can be identified as the most profitable in the company. The rest are indistinguishable from each other but differ from the top tier in profitability. Most companies realize that there are differences among customers within this tier but do not possess the data or capabilities to analyze the distinctions. The 80/20 customer pyramid is a two-tier scheme that assumes that consumers within the two tiers are similar, just as conventional market segmentation schemes typically assume consumers within segments are similar.

## 2. Expanded Customer Pyramid

More than two tiers are likely and can be used if the company has sufficient data to analyze customer tiers more finely. Different systems and labels can be useful. One useful four-tier system, shown in figure below might be the following :

1. **Platinum Tier:** It describes the company's most profitable customers, typically those who are heavy users of the product, are not overly price sensitive, are willing to invest in and try new offerings, and are committed customers of the firm.
2. **Gold Tier:** It differs from the platinum tier in that profitability levels are not as high, perhaps because the customers want price discounts that limit margins or are not as loyal. They may be heavy users who minimize risk by working with multiple vendors rather than just the focal company.
3. **Iron Tier:** It contains essential customers who provide the volume needed to utilize the firm's capacity; but their spending levels, loyalty, and profitability are not substantial enough for special treatment.
4. **Lead Tier:** It consists of customers who are costing the company money. They demand more attention than they are due given their spending and profitability and are sometimes problem customers - complaining about the firm to others and tying-up the firm's resources.

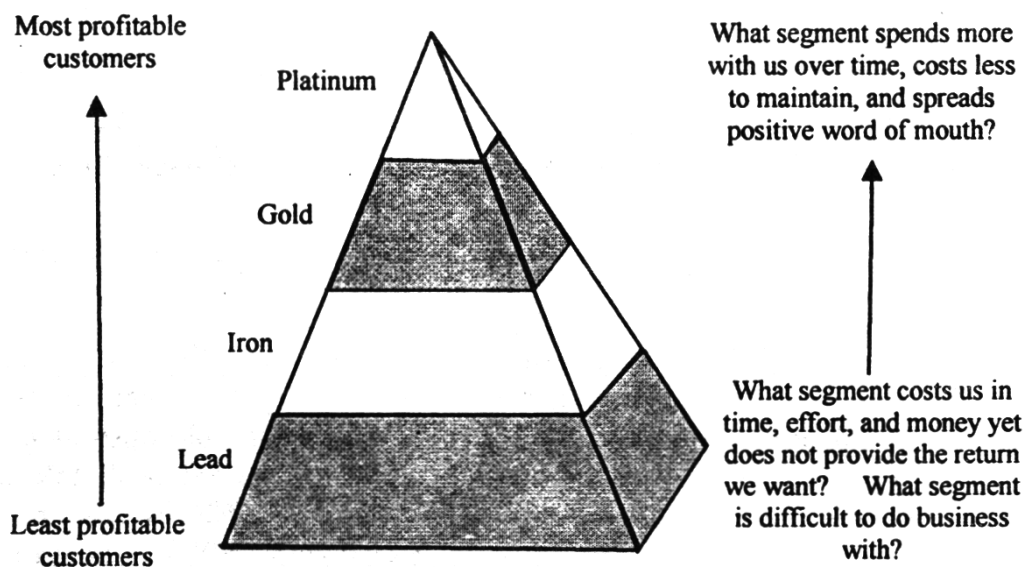


Fig.: Expanded Customer Pyramid

### 2.6.3 Strategies for Building Relationship

**Q15. What are the strategies for building relationship.**

*Ans :*

**1. People**

People within the organization have the basic role in developing and maintaining relationship with customers. Everyone in the organization must realize the fact that their work is towards satisfying customers. Everyone from the lowest to the highest level irrespective of their functional specialization and responsibilities must integrate their activities towards one of the main objectives of the organization - customer satisfaction. The marketing departments can coordinate integrated activity towards customer satisfaction. Obviously, people within the organization form the basis for building customer relationship.

**2. Process**

Process involves a logical sequence of activities right from the need identification of potential customers to need fulfillment. Need fulfillment requires manufacture of products with desired attributes. The process has to be derived from the customer's viewpoint, which paves way for total customer satisfaction. The performance of each link must be objectively analyzed and corrected in tune with the internal and external customers' expectations.

**3. Product**

The product offered must constantly provide value addition. The expectations of the customers may always be on the increase due to various reasons. A customer satisfied with a given product may soon become dissatisfied customer in view of the changes that take place in his expectations.

**4. Organization**

In order to build customer relationship, an organization should be aware of the technology advancements and provide quality services in tune with the customer's expectations. It should concentrate on total customer satisfaction and respond to the requirements of the customers faster than its competitors. The responsive and learning nature of the organization must build confidence in the mind of the customers and that will go a long way in building the customer relationship.

## 2.7 CUSTOMER FEEDBACK

**Q16. Explain about customer feedback.**

*Ans :*

**(May-19)**

Customer feedback helps improve products and services. When you initially introduce a new product, brand or service to market you probably have an idea about customer needs. ... However, only after your customers use your product or service you can learn about all the advantages, flaws and their actual experience.

Customer feedback is information provided by clients about whether they are satisfied or dissatisfied with a product or service and about general experience they had with a company. Their opinion is a resource for improving customer experience and adjusting your actions to their needs. This information can be collected with different kinds of surveys (prompted feedback), but you can also find opinions and reviews your clients post online (unprompted feedback) and collect them using Internet monitoring tools. Both sources are important to get a full picture of how your clients perceive your brand.



Top performing companies understand an important role that customer feedback plays in business. They consistently listen to the voice of their clients. Not only they search for opinions they clients publish on social media and reviews they provide on websites designed for gathering feedback (e.g. Trip Advisor), but they also deliberately ask for feedback using distinct kinds of surveys. If you want to stay ahead of competition you should never stop listening to customer feedback whether it is positive or negative, prompted or unprompted.

### **Tips to Maximize the Value of Customer Feedback for Customer Marketing**

Customer reviews can help inform your strategy, but true feedback provides constructive advice based on customer thoughts. To inspire customer feedback, be strategic about when and how you solicit responses. For example, sending a short survey via email at the close of every customer service call is timely, keeps the opportunity prevalent, and invites people to share their honest thoughts about an experience.

Here are a few more ways B2B can gather feedback and insights for customer marketing that makes it a seamless part of the buyer's journey.

#### **1. Take Advantage of Other Assets**

Include a simple feedback box on the bottom of a web page or at the close of an article. Big brands like Google have a standing question at the end of their online help materials: "Did you find this helpful?" Include something similar. This type of prompt gives readers a chance to respond immediately and offers clear insight on which pages are popular or not.

Create your version of a feedback box on a main home page or sales page. Feature one question relevant to the page content, or present a short series of different questions that change with a page refresh.

#### **2. Speak to Their Pain Points**

Offer polls geared towards customers' pain points. While every B2B has customer pain points, you may not immediately know which pain points are the most pressing or how customers feel about each point specifically.

Providing an opportunity - and incentive - to share feedback through a poll will make it easier to clarify what's most important. You'll also learn where customer marketing can expand with content like eBooks, webinars, and more.

#### **3. Live Chat and Messaging Support**

Sometimes customers are tired of being on the phone, or they work in an environment that's not conducive to a phone conversation. Live chat support is a valuable online tool that makes interactions easier. Customers have access to support and answers during the purchase process, even after traditional business hours, which is a pivotal upsell. In addition, you capture customer feedback in real time, and archived chats offer insights on keywords and pain points.

#### **4. Monitor Social Channels**

Take note of positive chatter, or create an online forum on your social pages. People like to talk about positive experiences, which means they will share stories about your brand in their social circles. Regular monitoring on your part will reveal the ripple effects of complimentary customer feedback.

Tracking feedback also allows sales to follow up with a customer by sharing a special offer with them or their connections. Online forums are perfect for collecting accurate insights and customer feedback because the community vibe encourages customers to connect with the brand and each other. Just make sure the forum is monitored daily by a qualified point person.

#### **5. Creatively Display Customer Feedback**

If you have positive customer feedback, ask for permission to display it on the website, in a video, or in a webinar. Select comments that showcase a variety of features and solutions to pain points.

Add customer logos or images, if allowed to do so. Putting a face or brand to a comment helps future buyers feel more comfortable that the glowing customer feedback is legitimate.

## 6. Website Form

Offer a form on the company website. Present a blanket feedback form on your website akin to a “How are we doing?” recap. The form can be short and feature a few multiple choice questions, or it can provide space to write full comments. The same concept can work via email if companies want to send it to specific customers once or twice a year.

Either option encourages honest communication and offers a touch point to keep you in a customer’s mind. Add an incentive to fill out the form, such as a discount on a new feature or subscription. Marketing teams can then use details from feedback forms to shape future customer marketing efforts.

## 7. Cultivate the Human Connection

Call and chat with customers to develop relationships. People buy from brands they like and trust, so if a customer has already purchased from you, they’re more likely to buy from you again. Keep good vibes rolling by checking in on how they enjoy using a new feature or product. Do so especially when the customer is close to a subscription renewal deadline.

Getting up-to-date feedback from active customers demonstrates a high level of customer service—another huge selling point for customers to inspire them to brag about your brand online.

Customers want to share their thoughts, so make it easier to share feedback while the B2B collects valuable customer marketing data. It’s a win-win!

### Customer Feedback Tools: Overview

Customer Feedback Tools have emerged as powerful data centers that can fetch customer feedback from multiple touch-points with utmost elegance. Businesses today, greatly rely upon these Customer Feedback Tools not just to read their customers’ minds, but use it as a platform to look for new product ideas & business opportunities. Do a little research, and you’ll stumble upon umpteen

Customer Feedback Tools - from simple, straightforward ones that only collect customer feedback data to sophisticated online survey tools that can slice and dice the collected data and give you some brilliant suggestions as well. Be it vanilla or fully-loaded, Customer Feedback Tools come absolutely handy to business that believes ‘Customer is King’ and ‘Customer Feedback is Everything’ that dictates the sustainability of their business. Long story short, Customer Feedback Tools are the breakfast for champion businesses. And that, you cannot deny!

### Customer Feedback Tool

With four steps and a great customer feedback tool by your side, you can effortlessly build & scale a flawless customer feedback program.



#### 1. Define the Goal

Don't wander aimlessly with survey that has vague questions and can easily put-off your customers. Clearly state the purpose of what you wish to find out before crafting up the survey.

#### 2. Identify the Feedback Collection Technique

Once you have set your objectives, it's time to pick which feedback collection technique you must employ to get the highest survey completion rate.

It's best to pick a customer feedback tool that supports the various techniques mentioned. More the merrier!

### 3. Analyze Feedback

Once you get the survey data in hand, utilize your customer feedback tool to gain crucial insights which you wanted to uncover.

#### Take Action

Your customer feedback tool has done its part, and now it's your turn. Carefully draft out a structured plan of action to tackle any obstacles you have discovered.

## 2.8 SERVICE FAILURE

### Q17. Explain about service failure.

*Ans :*

(May-19)

#### Service Failures

Even with the best service organizations, failures can just happen – they may be due to the service not available when promised, it may be delivered late or too slowly (some times too fast), the outcome may be incorrect or poorly executed, or employees may be rude or uncaring. All these types of service failures bring about negative experiences. If left unfixed they can result in customers leaving, telling others about the negative experiences or even challenging through consumer courts. Research has shown that resolving the problems effectively has a strong impact on the customer satisfaction, loyalty, and bottom-line performance. Customers who experience service failures, but are ultimately satisfied based on recovery efforts by the firm, will be more loyal.

If customers initiate action following service failure, the action can be various types. A dissatisfied customer can choose complaint on the spot to the service provider, giving the company the opportunity to respond immediately. This is often the best-case scenario for the company it has the second chance right at that movement to satisfy the customer, keep his or her business in the future, and potentially avoids any negative word of mouth.

Some customer chooses not to complaint directly to the provider but rather spread negative word of the mouth about the company to friend, relatives, and coworkers. This negative word of mouth can be extremely detrimental because it can reinforce the customer's feeling of negativism and spread that negative impression to other as well. Further, the company has no chance to recover unless the negative word of mouth is accompanied by a complaint directly to the company.

When there is a failure, customer can respond in a variety of ways. It is assumed that following are the failure, dissatisfaction at some levels will occur for the customer. In fact, research suggest that variety of negative emotion can occur following service failure, including such feeling as anger, discontent, disappointment, self-pity and anxiety. Many customers are very passive about their dissatisfaction, simply saying or doing nothing, take action or not, at some point the customer will decide weather to stay with that provider or switch to a competitor.

#### Causes of service failure

Even after giving due consideration to the service quality, the world class organizations may also face service failure. There can be many reasons of service failures some of them are mentioned below.

- Inexperienced employee
- Indifferent or rude behavior of employee
- Delay in service delivery or slow service delivery
- Equipment breakdown
- Power system failure

From the above reasons of service failures we can see some of the causes are within the organization's control but some of them are not. Whether a service organization can control or cannot control service failure, they can always prevent the damage due to service failure by solving the problem in quick and timely manner

#### Example of service failure

Service failure can happen in a hotel in various following forms:

- Defect in goods: Hotel fails to provide fresh and hot food and unavailability of food items mentioned in menu.
- Failure due to facility problems: Cleanliness of facility and absence of right and appropriate signs and directions.
- Failure due to unfriendly behavior: Rude behavior of employee at reception, limited options of modes of payments, long waiting time at reception.

### 2.9 SERVICE RECOVERY – RECOVERY STRATEGIES

**Q18. Explain about service recovery.**

*Ans :*

Service recovery is the process by which an organization attempts to rectify a failure in the service delivery process. Service recovery involves what a service provider does in response to service failures. The service offered by a service organization consists of several features and moments.

Service marketers cannot control all aspects of service delivery even though they have taken absolute care in designing the service package. The reason is that service delivery mostly depends on people who deal with customers. It is a known fact in business that it is far less expensive to keep the existing customer than to create a new customer. Service marketers cannot afford to lose good customers who have a potential to become credible campaigners via positive word of mouth, referrals, friends and others. The service marketers reap many benefits from the satisfied customers.

#### **Diminishing of Service Recovery**

##### **1. Communication**

It measures clarity of employees' communication, the questions asked to clarify the situation of the consumer, whether employees understood clearly the problem of the consumer and the way employees could communicate reliability and honesty in their endeavours to solve the problem.

##### **2. Empowerment**

It measures the freedom and ability of the first contact employee to solve the problem without seeking the permission, help and guidance from any other person in the organization.

##### **3. Feedback**

It measures how the customer is communicated with the progress of recovery and whether the problem is acknowledged.

##### **4. Atonement**

It measures whether the service company tendered an apology for the financial loss incurred by the consumer, made sure that the consumer had some money for a comfortable wait and behaved with the customer in a polite manner.

##### **5. Explanation**

It measures the way the service company provided explanation to the customer with the reasons for the service failure, whether such explanation was perceived by the consumers satisfactorily.

##### **6. Tangibles**

It measures the presentability of contact employees, their working style, the speed and the professional handling of processes and the physical environment of the service outlet.

RECOVAST was tested for its usefulness in the banking sector. The results proved its utility in measuring the post-recovery satisfaction of the customer.

#### **Benefits of Service Recovery**

The service recovery paradox addresses the question of whether customers who experience a failure followed by superior recovery might rate their satisfaction as high as or even higher than they would have had no failure occurred. Customers evaluate service recovery in terms of the outcomes they receive and the nature of the interpersonal treatment they receive during the recovery process.

Many research studies confirm that satisfactory service recovery contributes to customer retention/loyalty/commitment and other beneficial

outcomes. It promotes positive word-of-mouth communication, trust and enhanced perceptions of the firm's competence. It also creates a favourable image in terms of perceived quality and value. "Service firms can go a long way towards turning disgruntled customers into satisfied ones who are likely to maintain the business relationship with the firm through effective service recovery programmes." There are several benefits of a service recovery strategy. The following are the important benefits:

- Service recovery increases customer satisfaction.
- It increases customer loyalty.
- It promotes positive word of mouth.
- It provides information that can be used to improve service quality.
- It helps take preventive actions.
- It reduces the cost of the failure.
- It improves employee satisfaction and promotes healthy internal atmosphere.
- It enhances company's corporate image.
- It provides an opportunity to differentiate the service by providing uniqueness in recovery.
- It promotes good service culture in the organization. It reduces employee turnover. It enhances employee morale.
- It propagates the value system and ethical behaviour of the organization.

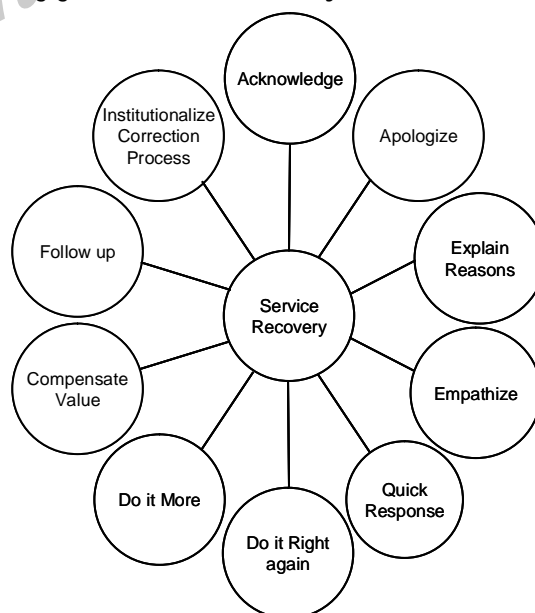
### 2.9.1 Recovery Strategies

**Q19. Discuss about service recovery strategies.**

*Ans :*

**(May-19)**

Service recovery strategies involve both what is done (tangible compensation) and how it is done (employee interaction with the customer), and both influence customer perceptions of the service recovery. A major challenge to achieving higher levels of customer retention is the service firm's recovery strategy when customers encounter problems. To turn a dissatisfied customer into a loyal one, choosing the most suitable service recovery option should be considered a critical task for specific incidents. The following strategies are capable of yielding good results in recovery:



**Fig.: Strategies for recovery**

**1. Acknowledge**

Service failures are observed by the customers. It is not possible to hide or conceal a service failure because customers also are part of the production process. Therefore, it is better to accept the failure immediately after the happening. The service provider should take the blame of the failure. It is improper to share the responsibility with the customer by making him/her partly responsible for the failure.

Some contact employees throw the blame on consumers to save their skin. It really hurts the consumers. Though some consumers accept the responsibility at the situation, they carry the dissatisfaction as they could not get the service rightly. Therefore, acknowledgment from the company side relieves the customer pressure of guilty (if the customer doubts his/her part in the failure) and develops value perception towards the company

**2. Apologize**

Apologizing sincerely to the aggrieved consumer often contributes to reducing the intensity of the grievance. All consumer complaints may not be correct or rational. Some consumers have the habit of finding fault in everything. Some may not be capable of interpreting facts properly and some may not have sufficient information to develop expectations.

**3. Explain Reasons**

Consumers must be apprised of the reasons for the service failure. This explanation makes the consumers understand the problems rationally and respond to the recovery process positively. The understanding of the factors contributed for the failure helps the consumers participate effectively in the recovery process.

**4. Empathise**

Service failures hurt the consumers. The effects of service failures on consumers vary based on many factors. The severity is more in some cases, and it is less in some cases.

The service provider should understand the problems of the consumer and express the company's feel of them. Consumer empathy works as psychological healing to the painful hurt due to the service failure. It gives confidence to the consumer that the company has understood their problems properly and recognized their failures.

**5. Respond Quickly**

Customers generally do not have the patience to wait for longer periods to settle their grievances. The longer the time taken for settlement, the greater will be the intensity of the grievance. Delays in settlement of the grievance may multiply the problems of the company and may also provide time to the aggrieved consumer to spread negative word of mouth in the market. On the other hand, a fast response ensures a happy consumer, and the company may find him a positive word-of-mouth campaigner.

**6. Do It Right Again**

One of the best alternatives in recovery is doing the service correctly again. The grievance of the customer can be reduced by performing service to the satisfaction of the consumer second time. The most obvious strategy in dealing with the service failure is to get it right the first time. This is forcing companies to devise new ways of managing customer relations to ensure prompt and consistent quality service, by identifying failure points in the service delivery process and then identifying methods to prevent these failures. However, this strategy cannot be applicable for all services. A barber after giving a bad haircut cannot correct it immediately.

**7. Do it More**

Researchers suggest that the best recovery strategy is to improve quality. By offering better quality to the customer when there is a service failure, the service provider can turn the customers' grievances into delight. Suppose a customer reserves in advance a two-bed accommodation in a hotel. When

he reaches the hotel with his family he finds no accommodation. There is every reason for his grievance. If the manager of the hotel tenders an apology immediately and offers a suite for the same price, coupled with a free banquet dinner, the customer is delighted.

Offering some free gifts, discounts for future visits, preference in the next visit and so on may influence the customers positively. When the service provider gives a token tangible item to make up for the service failure, customers may feel obliged to change their level of satisfaction. Reciprocity may be a means to explain this phenomenon.

**8. Compensate Value**

In some services, there may not be any other way for the service provider except to compensate for the damage done. In healthcare services a service failure may lead to the death of a patient. A service provider may reduce the grievance through the payment of compensation.

**9. Follow up**

After the recovery process is completed the service provider should not relax. Follow-up is capable of yielding very good results. An after-recovery call to ascertain that "are you satisfied now?", a liberal thanks for the cooperation extended by the customer immediately and a follow-up written communication are necessary to have a form of closure and to collect the feedback.

**10. Institutionalize the Correction Process**

Service companies should address the grievances of consumers and also focus on correction processes. The corrective measures in the process reduce complaints and improve efficiency. The reasons for failures or deficiencies need to be identified, analysed and appropriate measures have to be initiated for prevention. In the process, the involvement of employees and costumers yields good results.

## Short Question and Answers

### 1. Consumer buying.

*Ans :*

Consumer buying behavior refers to the buying behavior of final consumers - Individuals and households who buy goods and services for personal consumption.

#### Definition of CB

**According to Belch and Belch,** "Consumer behavior is the process and activities people engage in when searching for, selecting, purchasing, using, evaluating, and disposing of products and services so as to satisfy their needs and desires".

**According to Engel, Blackwell and Miniard,** "Consumer behavior includes those activities directly involved in obtaining, consuming and disposing of products and services including the decision processes that precede and follow these actions".

**According to Solomon,** "Consumer behavior is the process involved when individuals or groups select, purchase, use, or dispose of products, services, ideas or experiences to satisfy needs and wants".

Consumer behavior can be defined as "the activities and the actions of people and organization that purchase and use economic goods and services, including the influence on these activities and actions".

### 2. Evaluation of Alternatives

*Ans :*

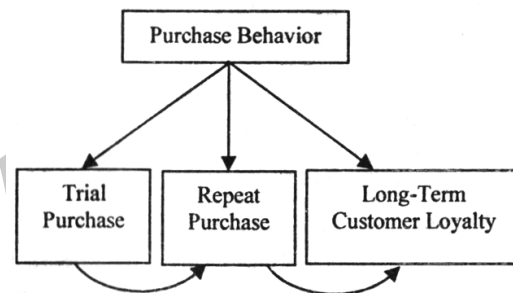
The search process leads to a set of alternatives that consumers evaluate in the next stage of the buying process. Customers use a set of alternatives to compare and evaluate the services offered by various service providers. In services, there are more experience qualities than search qualities. This 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.

### 3. Purchase Behavior

*Ans :*

Customers' purchases can be classified into trial purchases, repeat purchases, and long-term commitment purchases as shown in figure.



**Fig.: Purchase Behavior**

Customer makes 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 example, 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.

### 4. Consumer Experience

*Ans :*

Because the choice process for services is inherently risky with many unknowns, the experience itself often dominates the evaluation process. As noted, services are high in experience



and credence qualities relative to goods; thus, how consumers evaluate the actual experience of the service is critical in their evaluation process and their decision to repurchase later. In fact, noted customer experience experts have stated that "the experience is the marketing."

Much has been written recently about customer experiences and their important role in influencing consumer behavior. Goods and services companies alike are being admonished to create "memorable experiences for their customers." Our Strategy Insight on next page, illustrates the prominent role that experiences have assumed in corporate strategy.

### 5. Customer Perception.

*Ans :*

Consumer perception applies the concept of sensory perception to marketing and advertising. Just as sensory perception relates to how humans perceive and process sensory stimuli through their five senses, consumer perception pertains to how individuals form opinions about companies and the merchandise they offer through the purchases they make. Merchants apply consumer perception theory to determine how their customers perceive them. They also use consumer perception theory to develop marketing and advertising strategies intended to retain current customers - and attract new ones.

### Satisfaction versus Service Quality

Practitioners and writers in the popular press tend to use the terms *satisfaction* and *quality* interchangeably, but researchers have attempted to be more precise about the meanings and measurement of the two concepts, resulting in considerable debate. Consensus is that the two concepts are fundamentally different in terms of their underlying causes and outcomes. Although they have certain things in common, *satisfaction* is generally viewed as a broader concept, whereas *service quality* focuses specifically on dimensions of service.

### 6. Customer Satisfaction.

*Ans :*

Satisfaction is the consumer's fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provides a pleasurable level of consumption-related fulfillment.

In less technical terms, we interpret this definition to mean that *satisfaction* is the customer's evaluation of a product or service in terms of whether that product or service has met the customer's need and expectations. Failure to meet needs and expectations is assumed to result in dissatisfaction with the product or service.

### What Determines Customer Satisfaction?

Customer satisfaction is influenced by specific product or service features, perception of product and service quality, and price. In addition, personal factors such as the customer's mood or emotional state and situational factors such as family member opinions influence satisfaction.

#### i) Product and Service Features

Customer satisfaction with a product or service is influenced significantly by the customer's evaluation of product or service features. For a service such as a resort hotel, important features might include the pool area, access to golf facilities, restaurants, room comfort and privacy, the helpfulness and courtesy of staff, room price, and so forth. In conducting satisfaction studies, most firms determine through some means (often focus groups) what the important features and attributes are for their service and then measure perceptions of those features as well as overall service satisfaction.

Research has shown that customers of services make trade-offs among different service features (e.g., price level versus quality versus friendliness of personnel versus level of customization), depending on the type of service being evaluated and the criticality of the service.

**ii) Customer Emotions**

Customers' emotions can also affect their perceptions of satisfaction with products and services. These emotions can be stable, preexisting emotions—for example, mood state or life satisfaction. Think of times when you are at a very happy stage in your life (such as when you are on vacation), and your good, happy mood and positive frame of mind have influenced how you feel about the services you experience. Alternatively, when you are in a bad mood, your negative feelings may carry over into how you respond to services, causing you to overreact or respond negatively to any little problem.

**iii) Attributions for Service Success or Failure**

Attributions -the perceived causes of events - influence perceptions of satisfaction as well. When customers have been surprised by an outcome (the service is either much better or much worse than expected), they tend to look for the reasons, and their assessments of the reasons can influence their satisfaction.

**7. Relationship marketing.**

*Ans :*

Relationship marketing is an integrated effort to identify, maintain, and build a network with individual customers and to continuously strengthen the network for the benefit of both the sides, through interactive, individualized, and value added contacts over a long period of time.

**According to Professor Philip Kotler,** "Relationship marketing is the process of building long term, trusting, and win-win relationship with customers, distributors, dealers and suppliers. Over time, relationship marketing promises and delivers high quality, efficient service and fair prices to the other party. It is accomplished by strengthening economic, technical and social ties between members of two organizations or between the marketer and the individual customer".

**According to Morgan and Hunt,** "All marketing efforts directed towards establishing, developing, and maintaining successful relational exchanges."

**According to Moller and Wilson,** "Relationship marketing is about understanding, creating, and managing exchange relationships between economic partners; manufacturers, service providers, various channel members, and final consumers."

Few of the key elements, which give a broader perspective of this new customer relationship marketing, are :

- i) Interaction between suppliers and customers is moving from a transaction one to a relationship focused one.
- ii) The relationship marketing emphasizes on maximizing the life time value of customer segments and on enhancing customer satisfaction.
- iii) Relationship marketing is concerned with working, developing and enhancing relationships with 'internal' markets within the organization and building substantial 'external' relationships with customers, suppliers, referral source, influence markets and recruitment markets.

**8. Strategies for building relationship.**

*Ans :*

**i) People**

People within the organization have the basic role in developing and maintaining relationship with customers. Everyone in the organization must realize the fact that their work is towards satisfying customers. Everyone from the lowest to the highest level irrespective of their functional specialization and responsibilities must integrate their activities towards one of the main objectives of the organization - customer satisfaction. The marketing departments can coordinate integrated activity towards customer satisfaction. Obviously, people within the organization form the basis for building customer relationship.

**ii) Process**

Process involves a logical sequence of activities right from the need identification of potential customers to need fulfillment. Need

fulfillment requires manufacture of products with desired attributes. The process has to be derived from the customer's viewpoint, which paves way for total customer satisfaction. The performance of each link must be objectively analyzed and corrected in tune with the internal and external customers' expectations.

### iii) Product

The product offered must constantly provide value addition. The expectations of the customers may always be on the increase due to various reasons. A customer satisfied with a given product may soon become dissatisfied customer in view of the changes that take place in his expectations.

### iv) Organization

In order to build customer relationship, an organization should be aware of the technology advancements and provide quality services in tune with the customer's expectations. It should concentrate on total customer satisfaction and respond to the requirements of the customers faster than its competitors. The responsive and learning nature of the organization must build confidence in the mind of the customers and that will go a long way in building the customer relationship.

## 9. Customer feedback.

*Ans :*

Customer feedback helps improve products and services. When you initially introduce a new product, brand or service to market you probably have an idea about customer needs. However, only after your customers use your product or service you can learn about all the advantages, flaws and their actual experience.

Customer feedback is information provided by clients about whether they are satisfied or dissatisfied with a product or service and about general experience they had with a company. Their opinion is a resource for improving customer experience and adjusting your actions to their needs. This information can be collected with different kinds of surveys (prompted feedback), but you can also

find opinions and reviews your clients post online (unprompted feedback) and collect them using Internet monitoring tools. Both sources are important to get a full picture of how your clients perceive your brand.

Top performing companies understand an important role that customer feedback plays in business. They consistently listen to the voice of their clients. Not only they search for opinions they clients publish on social media and reviews they provide on websites designed for gathering feedback (e.g. Trip Advisor), but they also deliberately ask for feedback using distinct kinds of surveys. If you want to stay ahead of competition you should never stop listening to customer feedback whether it is positive or negative, prompted or unprompted.

## 10. Service failures

*Ans :*

Even with the best service organizations, failures can just happen – they may be due to the service not available when promised, it may be delivered late or too slowly (some times too fast), the outcome may be incorrect or poorly executed, or employees may be rude or uncaring. All these types of service failures bring about negative experiences. If left unfixed they can result in customers leaving, telling others about the negative experiences or even challenging through consumer courts. Research has shown that resolving the problems effectively has a strong impact on the customer satisfaction, loyalty, and bottom-line performance. Customers who experience service failures, but are ultimately satisfied based on recovery efforts by the firm, will be more loyal.

If customers initiate action following service failure, the action can be various types. A dissatisfied customer can choose complaint on the spot to the service provider, giving the company the opportunity to respond immediately. This is often the best-case scenario for the company it has the second chance right at that movement to satisfy the customer, keep his or her business in the future, and potentially avoids any negative word of mouth.

## UNIT III

**Innovation and Quality:** Service Innovation – Design, Challenges, Mapping Patterns of Service Innovation, Types of Service Innovation, stages in service innovation and development, Service Quality, Gaps model of Service Quality- Customer Gap, Provider Gap and Closing Gap, Service Excellence, Service Standards- factors, types, Physical Evidence – managing Physical Evidence, and the Servicescape – Designing Servicescapes.

### 3.1 SERVICE INNOVATION

#### Q1. Write about Service Innovation.

*Ans :*

The concept of Service Innovation was first discussed in Miles (1993) and has been developed in the past 2 decades. It is used to refer to many things. These include but not limited to :

1. Innovation in services, in service products new or improved service products (commodities or public services). Often this is contrasted with “technological innovation”, though service products can have technological elements. This sense of service innovation is closely related to Service design and “new service development”.
2. Innovation in service processes new or improved ways of designing and producing services. This may include innovation in service delivery systems, though often this will be regarded instead as a service product innovation. Innovation of this sort may be technological, technique - or expertise - based, or a matter of work organization (e.g. restructuring work between professionals and paraprofessionals).
3. Innovation in service firms, organizations, and industries - organizational innovations, as well as service product and process innovations, and the management of innovation processes, within service organizations.

Service Innovation is hard to define, one of the many helpful definitions comes from Finland’s research agency, Service innovation is a new or significantly improved service concept that is taken into practice. It can be for example a new customer interaction channel, a distribution system or a technological concept or a combination of them.

A service innovation always includes replicable elements that can be identified and systematically reproduced in other cases or environments. The replicable element can be the service outcome or the service process as such or a part of them. A service innovation benefits both the service producer and customers and it improves its developer’s competitive edge.

A service innovation is a service product or service process that is based on some technology or systematic method. In services however, the innovation does not necessarily relate to the novelty of the technology itself but the innovation often lies in the non-technological areas. Service innovations can for instance be new solutions in the customer interface, new distribution methods, novel application of technology in the service process, new forms of operation with the supply chain or new ways to organize and manage services.

### 3.1.1 Challenges and Mapping Patterns of Service Innovation and Design

#### Q2. Discuss about Challenges and Mapping Patterns of Service Innovation and Design.

*Ans :*

#### Three Service Innovation Challenges

The Cornell roundtable identified several core challenges that fly in the face of fostering and executing service innovation:

1. **Innovation versus procedure: are they at odds?** The operational environment that is at the foundation of the hospitality industry (check-in at this time, order here and pay here, e.g.) makes it particularly challenging to truly innovate.
2. **The cross-cultural factor.** Many hospitality organizations operate in varying market places, be they as regional as 'East Coast city' versus 'East Coast suburb,' or as global as North America versus Asia. When successful innovation is identified in one regional marketplace, it may not translate well in other regions where cultural norms for a positive guest experience vary.
3. **Innovation requires risk.** Hospitality operators must be willing to accept some risk of failure as a part of their innovation plans. Because these are service-based initiatives, testing often takes place in the actual marketplace where the guest experience occurs, instead of in a lab, raising the stakes even higher.

#### Four Ways to Improve the Innovation Process

These strategies can help hospitality operators improve the processes that support successful service innovation:

1. **Build support for innovation into the company's culture.** One of the best resources for identifying ways to improve processes is employees; especially those on the front-lines who interact with guests on a regular basis. Leadership must create a culture that motivates employees to innovate. Consider aligning employee

compensation and goals with innovation, for example. Carlson Hotels World Wide builds innovation into its corporate bonus plan.

2. **Be willing to accept risk.** Once employees are empowered to come up with new ideas, the organization must also accept that, with any novel idea there is always a risk of failure. Moreover, it must be made clear to employees that failure is not only allowed but acceptable in order to be innovative.
3. **Get employee buy-in for new initiatives.** Employees must be educated on the goals associated with new initiatives, and not just process changes. Hyatt Hotels learned this lesson during the roll-out of its self-service kiosk initiative for guest check-in/out. Early on in the process employees in some locations unplugged the kiosks because they believed the units threatened job security. The hotel chain quickly educated employees that goal for the initiative was to offer options to guests, and not to reduce labor, and employee support grew. Today the hotel chain has one of the most successful self-service kiosk initiatives in the lodging industry.
4. **Be open to incremental innovation.** Innovation is not necessarily a new idea; it might be an existing idea used in a new way. This incremental innovation can help mitigate risk and ease the burden on employees and company resources.

### 3.1.2 Types of Service Innovation

#### Q3. What are the types of Service Innovation?

*Ans :*

(May-19)

As we describe the service innovation and development process, remember that not all new service innovations are "new" to the same degree. New service options can run the gamut from major innovations to minor style changes:

1. **Major or radical innovations** are new services for markets as yet undefined, past examples include the first broadcast television services and Federal Express's introduction of nationwide, overnight small-package delivery. Many innovations now and in the

future will evolve from information, computer, and Internet-based technologies. Often these major innovations create brand-new markets. Our Technology Spotlight features eBay, a company that epitomized a radical service innovation that has evolved significantly over the years.

2. **Start-up businesses** consist of new services for a market that is already served by existing products that meet the same generic needs. Service examples include the creation of health maintenance organizations to provide an alternative form of health care delivery, on-line banking for financial transactions, and door-to-door airport shuttle services that compete with traditional taxi and limousine services.
3. **New services** for the currently served market represent attempts to offer existing customers of the organization a service not previously available from the company (although it may be available from other companies). Examples include retailers adding a coffee bar or children's play area, a health club offering nutrition classes, and airlines offering phone and Internet services during flights. Sometimes these represent only modest enhancement services as in these examples. Other times the offering may represent a radically new stand-alone service such as PetSmart's PetsHotels, described later in the chapter in the Strategy Insight.
4. **Service-line extensions** represent augmentations of the existing service line, such as a restaurant adding new menu items, an airline offering new routes, a law firm offering additional legal services, and a university adding new courses or degrees.
5. **Service improvements** represent perhaps the most common type of service innovation. Changes in features of services that are already offered might involve faster execution of an existing service process, extended hours of service, or augmentations such as added amenities in a hotel room (e.g., the addition of wireless Internet connections).
6. **Style changes** represent the most modest service innovations, although they are often highly visible and can have significant effects on customer perceptions, emotions, and attitudes. Changing the color scheme of a restaurant, revising the logo for an organization, redesigning a website, or painting aircraft a different color all represent style changes. These innovations do not fundamentally change the service, only its appearance, similar to how packaging changes are used for consumer products.

### 3.1.3 Stages in Service Innovation Development

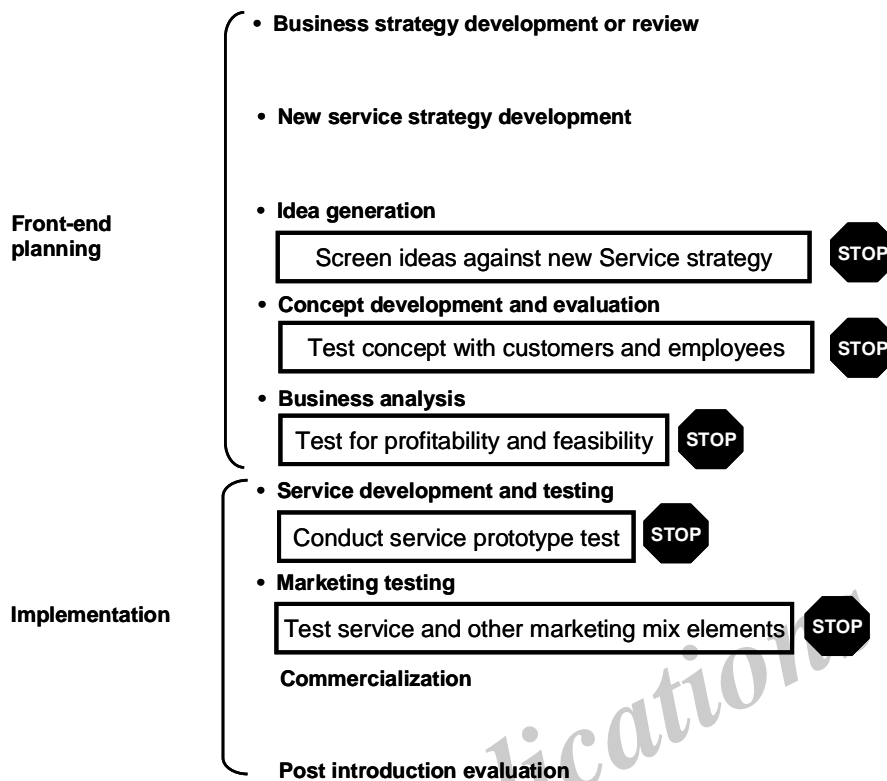
**Q4. Describe the various Stages in Service Innovation and Development along with a neat diagram.**

*Ans :*

**(Dec.-19, May-19)**

We focus on the actual steps to be followed in service innovation and development. The steps can be applied to any type of new service. Much of what is presented in this section has direct parallels in the new product development process for manufactured goods. Because of the inherent characteristics of services, however, the development process for new services requires adaptations. Figure shows the basic principles and steps in new service development. Although these steps may be similar to those for manufactured goods, their implementation is different for services.

The challenges typically lie in defining the concept in the early stages of the development process and again at the prototype development stage. Other challenges come about in the design and implementation of the new service because it can involve coordinating human resources, technology, internal processes, and facilities within already-existing systems. Partially because of these challenges, service firms are generally less likely to carry out a structured development process for new innovations than are their manufacturing and consumer-goods counterparts.



**Fig.: Service Innovation and Development Process**

The process shown in Figure is divided into two sections: front-end planning and implementation. The front end determines what service concepts will be developed, whereas the back end executes or implements the service concept. When asked where the greatest weaknesses in product and service innovation occur, managers typically report problems with the fuzzy front end. The front end is called "fuzzy" because of its relative abstractness, which is even more apparent with intangible, complex, and variable services than with manufactured products.

#### **A) Front -End Planning**

##### **1) Business Strategy Development or Review**

It is assumed that an organization will have an overall strategic orientation, vision, and mission. Clearly a first step in new service development is to review that mission and vision. The new service strategy and specific new service ideas must fit within the larger strategic mission and vision of the organization.

##### **2) New Service Strategy Development**

Research suggests that without a clear new product or service strategy, a well-planned portfolio of new products and services, and an organizational structure that facilitates product development via ongoing communications and cross-functional sharing of responsibilities, front-end decisions become ineffective. Thus, a product portfolio strategy and a defined organizational structure for new product or service development are critical - and are the foundations - for success.

The types of new services that will be appropriate will depend on the organization's goals, vision, capabilities, and growth plans. By defining a new service innovation strategy (possibly in

terms of markets, types of services, time horizon for development, profit criteria, or other relevant factors), the organization will be in a better position to begin generating specific ideas. For example, it may focus its growth on new services at a particular level of the described continuum from major innovations to style changes. Or the organization may define its new service strategy even more specifically in terms of particular markets or market segments or in terms of specific profit generation goals.

### 3) Idea Generation

The next step in the process is the generation of new ideas that can be passed through the new service strategy screen described in the preceding step. Many methods and avenues are available for searching out new service ideas. Formal brainstorming, solicitation of ideas from employees and customers, lead user research, and learning about competitors' offerings are some of the most common approaches. Some companies are even collaborating with outsiders (e.g., competitors, vendors, alliance partners) or developing licensing agreements and joint ventures in an effort to exploit all possible sources of new ideas. Observing customers and how they use the firm's products and services can also generate creative ideas for new innovations.

### 4) Service Concept Development and Evaluation

Once an idea surfaces that is regarded as a good fit with both the business and the new service strategies, it is ready for initial development. In the case of a tangible product, this next step would mean formulating the basic product definition and then presenting consumers with descriptions and drawings to get their reactions.

After clear definition of the concept, it is important to produce a description of the service that represents its specific features and characteristics and then determine initial customer and employee responses to the concept. The service design document would

describe the problem addressed by the service, discuss the reasons for offering the new service, itemize the service process and its benefits, and provide a rationale for purchasing the service. The roles of customers and employees in the delivery process would also be described. The new service concept would then be evaluated by asking employees and customers whether they understand the idea of the proposed service, whether they are favorable to the concept, and whether they feel it satisfies an unmet need.

### 5) Business Analysis

Assuming that the service concept is favorably evaluated by customers and employees at the concept development stage, the next step is to estimate its economic feasibility and potential profit implications. Demand analysis, revenue projections, cost analyses, and operational feasibility are assessed at this stage. Because the development of service concepts is so closely tied to the operational system of the organization, this stage will involve preliminary assumptions about the costs of personnel hiring and training, delivery system enhancements, facility changes, and any other projected operations costs. The organization will pass the results of the business analysis through its profitability and feasibility screen to determine whether the new service idea meets the minimum requirements.

### B) Implementation

Once the new service concept has passed all the front-end planning hurdles, it is ready for the implementation stages of the process.

#### 1) Service Prototype Development and Testing

In the development of new tangible products, the development and testing stage involves construction of product prototypes and testing for consumer acceptance. Again, because services are intangible and simultaneously produced, consumed, and frequently co-created, this step presents unique challenges. To address these challenges, this stage of service development should involve all who



have a stake in the new service: customers and contact employees as well as functional representatives from marketing, operations, and human resources. During this phase, the concept is refined to the point at which a detailed service blueprint representing the implementation plan for the service can be produced. The blueprint is likely to evolve over a series of iterations on the basis of input from all involved parties.

## 2) Market Testing

At the market testing stage of the development process, a tangible product might be test marketed in a limited number of trading areas to determine marketplace acceptance of the product as well as other marketing mix variables such as promotion, pricing, and distribution systems. Because new service offerings are often intertwined with the delivery system for existing services, it is difficult to test new services in isolation.

## 3) Commercialization

During the commercialization stage, the service goes live and is introduced to the marketplace. This stage has two primary objectives. The first is to build and maintain acceptance of the new service among large numbers of service delivery personnel who will be responsible day-to-day for service quality. This task is made easier if acceptance has been built in by involving key groups in the design and development process all along. However, it will still be a challenge to maintain enthusiasm and communicate the new service throughout the system; excellent internal marketing will help.

The second objective is to monitor all aspects of the service during introduction and through the complete service cycle. If the customer needs six months to experience the entire service, then careful monitoring must be maintained through at least six months. Every detail of the service should be assessed

- phone calls, face-to-face transactions, billing, complaints, and delivery problems. Operating efficiency and costs should also be tracked.

## 4) Post introduction Evaluation

At this point, the information gathered during commercialization of the service can be reviewed and changes made to the delivery process, staffing, or marketing mix variables on the basis of actual market response to the offering. For example, Expedia.com, the travel website, realized that despite prelaunch testing, restrictions on Expedia bargain fares were confusing to customers. A "hot fix" team was called in to repair the problem. Within a day, the project team redesigned the presentation of information so that the fare restrictions would be clear to customers.

No service will ever stay the same. Whether deliberate or unplanned, changes will always occur. Therefore, formalizing the review process to make those changes that enhance service quality from the customer's point of view is critical.

### 3.2 SERVICE QUALITY

#### Q5. Write about Service Quality.

Ans :

(May-19)

Service quality is a comparison of expectations with performance

"Service quality is a focused evaluation that reflects the customer's perception of specific dimensions of service: reliability, responsiveness, assurance, Empathy, tangibles. Satisfaction, on other hand, is more inclusive: it is influenced by perceptions of service quality, product quality, and price as well as situational factors and personal factors

Service quality affects customer satisfaction by providing performance (real benefits). "The creation of customer satisfaction can provide several benefits, including the relationship between companies and consumers are harmonious, providing a good basis for the purchase and recreation of customer loyalty, and form a recommendation by word of mouth that can benefit the company".

### The 5 Service Quality Dimensions

Every company owner wants to get loyal customers which add to repeating purchases and of cause increasing their maximum revenue. But to get there they need to know about the 5 Service Quality Dimensions. Many actually think that service is just a little part of the marketing mix, but it is actually a very important part of both the 4 and 7 P's

Each of the 5 Service Quality Dimensions makes an extra addition to the level and quality of service which the company offers their customers. It also makes the service far more unique and satisfying.

#### Dimension 1 - tangibles

The tangible Service Quality Dimension refers to the appearance of the physical surroundings and facilities, equipment, personnel and the way of communication. In other words, the tangible dimension is about creating first hand impressions. A company should want all their customers to get a unique positive and never forgetting first hand impression, this would make them more likely to return in the future.

#### Dimension 2 - reliability

The reliability Service Quality Dimension refers to how the company are performing and completing their promised service, quality and accuracy within the given set requirements between the company and the customer. Reliability is just as important as a goof first hand impression, because every customer want to know if their supplier is reliable and fulfill the set requirements with satisfaction.

#### Dimension 3 - responsiveness

The responsiveness Service Quality Dimension refers to the willingness of the company to help its customers in providing them with a good, quality and fast service. This is also a very important dimension, because every customer feels more valued if they get the best possible quality in the service.

#### Dimension 4 - assurance

The assurance Service Quality Dimension refers to the company's employees. Are the employees skilled workers which are able to gain the trust and confidence of the customers? If the customers are not comfortable with the employees, there are a rather large chance that the customers will not return to do further business with the company.

#### Dimension 5 - empathy

The empathy Service Quality Dimension refers to how the company cares and gives individualized attention to their customers, to make the customers feeling extra valued and special. The fifth dimension are actually combining the second, third and fourth dimension to a higher level, even though the really cannot be compared as individuals. If the customers feel they get individualized and quality attention there is a very big chance that they will return to the company and do business there again.

### 3.2.1 GAPS Model of Service Quality

#### Q6. Explain the GAPS Model of Service Quality.

*Ans :*

(Dec.-19, Imp.)

The definition of high quality is neither static nor identical in every situation. Zeithaml, Berry, and Parasuraman identify four potential gaps within the service organization that may lead to a final and most serious gap. The difference between what customers expected and what organizations perceived is known gap in service quality. There are four types of gap models given by Zeithaml, Berry, and Parasuraman which are as follows:

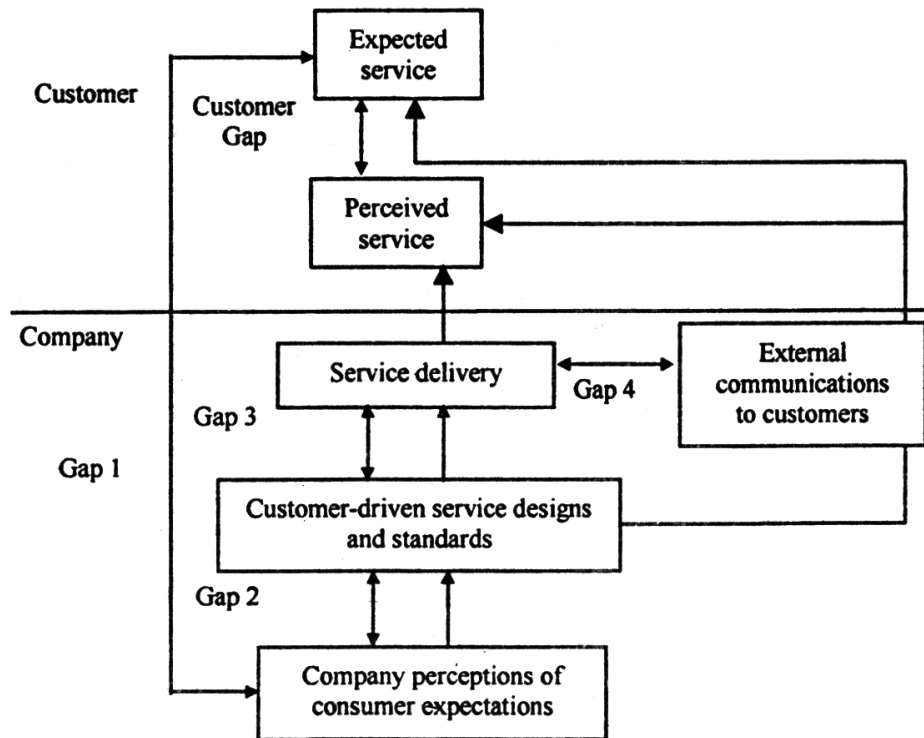


Fig.: Gaps Model of Service Quality

#### Gap 1: Not knowing What Customers Expect

This first type of gap is one that exists between the 'expected service' and the 'company perceptions of'. As it has been seen, 'expected service' is the highest level of desired service existing in the minds of the customers. 'Company perceptions of consumer expectations' are nothing but the company's understanding of what the customers want. This is the gap brought about by either ignorance or misunderstanding of the customer expectations.

What causes this gap? The typical reasons are:

1. **No Direct Interaction with Customers :** The service providers see themselves as indifferent or superior to customers. This typically happens in government-run services such as railways or postal departments where they would not want to know about customer desires.
2. **Unwillingness to Ask Customers about Expectations:** Service providers may believe that they know what is best for their customers. This is the patronizing attitude towards the customers.
3. **Unpreparedness to Address the Expectations:** The service provider may be aware of the shortfalls but may be unprepared to address the issue in the mistaken belief that the customers may be tolerant or that the lapse is unlikely to result in loss of customer patronage.
4. **Lack of Market Segmentation to Understand the Needs of Each Segment:** Segmentation is usually done to understand the needs of customers more elaborately or distinctly. If the needs are not precisely understood due to lack of segmentation, quality perception is likely to be poor.

#### Gap 2: Inability to Set the Right Type of Standards

The customers may have service standard expectations that may be either higher or lower than the standards set by the company. The following reasons may cause this gap:

**1. Absence of Customer-driven Standards of Service Delivery:**

The standards for quality improvement of planning should be clearly those which are desired by the customer rather than those set by only the service provider. Thus the involvement of the end user/customer in the goal-setting process is crucial to its success.

**2. Absence of Formal Quality-control Goals:**

It is not enough to say that quantification is not possible and, therefore, formal goals cannot be set for services delivery. Even subjective assessment may be vital in setting the standards.

**3. Vague or Undefined Service Design:**

The service design may have been running traditionally for a number of years without any alteration, or it may have been borrowed from some other concept. Defining the service would go a long way towards determining the standards of customer satisfaction.

**Gap 3: Not Delivering to Service Standards**

This is the most common type of failure brought about by the day-to-day difficulties in services delivery. The common causes for this failure are:

**1. Lack of Right type of Employees or their Training in Service Delivery:**

The front-end employees involved in service delivery require certain qualities that enable them to relate to and deal with customers. They require training to achieve this.

**2. Lack of Empowerment of the Employees:**

Delayed resolution of a customer demand for service usually results in dissatisfaction. It may be essential to give more decision-making powers to the front-end employees in order to resolve disputes quickly and amicably.

**3. Lack of Training to the Franchisee's Staff:**

Whenever service is provided by a franchisee in lieu of the service provider, the front-end employees of the franchisee require elaborate

training to be able to cope with the customer demands in a standardized and predetermined manner.

**4. Failure to Predict/Match Supply and Demand Fluctuations:**

When demand for a particular service exceeds the supply capacity, the general tendency is to shorten the process of the service delivery to speed up the process. Usually, in this case, the quality of the service delivered deteriorates.

**5. Insufficient Customer Education:**

The customer is as much involved in the process of services delivery as the service provider. Therefore, training the customer to receive the service to derive maximum benefits is essential.

**Gap 4: Mismatch between Promises and Performance**

There is a great temptation to promise the world in order to win over customers. However, it would be either physically impossible or financially unviable to provide all that was promised. This usually results in customer disappointment.

The typical reasons for this kind of failure are:

**1. Unrealistic Communication to Customers:**

In the anxiety to strike a deal or market the service, sales personnel promise more than what they can ever deliver. Such communication can be either formal or informal. Usually, customers set the service expectations according to such delivery and price quotations.

**2. Over promising through Advertisement or Personal Selling:**

During the marketing phase, the sales force may go beyond the original script to strike the deal. While customers may be lost to competition due to under promising, they may be lost due to over promising as well.

**3. Lack of Internal Communications:**

If during the personal selling phase a commitment was made to strike the deal, it is essential to convey this message to the other

people in the organization, especially the production teams, failing which, they may not be able to keep up with this additional conceded demand.

### 3.2.2 Customer Gap

#### Q7. Write about Customer Gap.

*Ans :* (May-19)

The customer gap is the difference between customer expectations and perceptions Figure. Customer expectations are standards or reference points that customers bring into the service experience, whereas customer perceptions are subjective assessments of actual service experiences. Customer expectations often consist of what a customer believes should or will happen.

For example, when you visit an expensive restaurant, you expect a high level of service, one that is considerably superior to the level you would expect in a fast-food restaurant. Closing the gap between what customers expect and what they perceive is critical to delivering quality service; it forms the basis for the gap model.

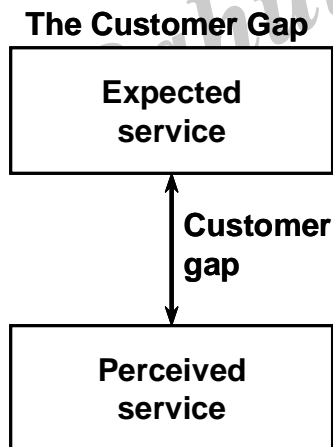


Fig.: The Customer Gap

#### Strategies to Fill Service Quality Gaps

Service quality is a deliberate strategic choice exercised by winner firms. When the firms encounter service quality gaps, has to focus on the following critical areas:

#### 1. Developing a Shared Service Vision:

The starting point is that of developing a shared service vision, a service concept, and operating strategy which is communicated to everyone in the organization. Through open communication, companies have continued to refine its service concept. By understanding what their target customer want and how they perceive firms competitors. The firm has achieved its goal through strategy and system integration, wherein HRD, upgradation of technology, and service delivery points have played a pivotal role. Training and decentralization decision-making, and accessibility of top management contact personnel and customers have helped firms to emerge a winner in the financial service industry. It is not only important to have service vision but it is equally critical to plan and implement a service quality strategy.

#### 2. Locating Service Point Near the Customer:

Taking service to the customer is one of the useful tools in improving service quality. The option demands that instead of the customer having to seek-out service outlets, the firm's service centers should seek-out the customer. Service which is done at hand, at the time customer wants it.

#### 3. Making Delivery Point User Friendly:

It is important to have service point user friendly. Cleanliness, friendly environment and courteous people, warm hospitality shown in both verbally and non- verbally, and using technology can make service delivery point customer friendly.

#### 4. Reducing the Time Gap between Services Sought and Delivered:

A firm should work to reduce the time gap between the customer asking for service and being delivered. The firm should aim at providing any service to the customer in least possible time.

**5. Product Design:**

The firm should also take a close look at its product design and examine how technology can help better serve customer. Technology today offers opportunities to the firm to provide a highly dependable, zero defect products.

**6. Unconditional Guarantee:**

The firm must also plan to give unconditional guarantee to its customer. Especially when commitment to customer service is pledge by none else than the Chief Executive of the firm. Customer confidence in the firm and its product goes up.

**7. Role Clarity and Empowering People:**

Role clarity and inter-role linkage helps motivate service provider to deliver good quality service to the customer. Often when role of an individual employee is not clearly defined and role overlapping is a common phenomenon in the organization, confusion occurs.

**8. Performance Measurement and Reward Systems:**

To create excellence in service quality it is necessary to reinforce the positive behavior of service providers. Their performance should be assessed on the basis of their contribution in creating a satisfied customer. Corporate reward system should encourage such employees and the firm should showcase them so that others too feel motivated to deliver quality service.

**9. Research and Training of People:**

A firm needs to continuously monitor customer satisfaction and for this it needs to have a customer feedback and intelligence system in place. It should also occasionally conduct market research to understand people changing customer perception and expectations. Firms need to educate and train their employee in delivering quality service. They have to be sensitive to customer needs and expectations. Employees will also have to be educated or trained in using state-of-art technology to service customers.

**3.2.3 Provider Gap and Closing Gap****Q8. Discuss about Provider Gap and Closing Gap.**

*Ans :*

There are prescriptions (ways) for closing quality gaps to ensure a better quality service to employees. Some of them are given below:

**1. Gap 1 Prescription:****Learn What Customers Expect**

- i) Understand customer expectations through research, complaint analysis, customer panels, etc.
- ii) Increase direct interaction between managers and customers to improve understanding.
- iii) Improve upward communication from contact personnel to management.
- iv) Turn information and insights into action.

**2. Gap 2 Prescription: Establish the Right Service Quality Standards**

- i) Ensure that top management displays ongoing commitment to quality as defined by customers.
- ii) Set, communicate, and reinforce customer-oriented service standards for all work units.
- iii) Train managers in the skills needed to lead employees to deliver quality service standards for all work units.
- iv) Become receptive to new ways of doing business that overcome barriers to delivering quality service.
- v) Standardize repetitive work tasks to ensure consistency and reliability by substituting hard technology for human contact and improving work methods.
- vi) Establish clear service quality goals that are challenging, realistic, and explicitly designed to meet customer expectations.
- vii) Clarify which job tasks have the biggest impact on quality and should receive the highest priority.

- viii) Ensure that employees understand and accept goals and priorities.
- ix) Measure performance and provide regular feedback.
- x) Reward managers and employees for attaining quality goals.

### 3. Gap 3 Prescription:

#### Ensure that Service Performance Meets Standards

- i) Clarify employee roles.
- ii) Ensure that all employees understand how their jobs contribute to customer satisfaction.
- iii) Match employees to jobs by selecting for the abilities and skills needed to perform each job well.
- iv) Provide employees with the technical training needed to perform their assigned tasks effectively.
- v) Develop innovative recruitment and retention methods to attract the best people and build loyalty.
- vi) Enhance performance by selecting the most appropriate and reliable technology and equipment.
- vii) Teach employees about customer expectations, perceptions and problems.
- viii) Train employees in inter-personnel skills, especially for dealing with customers under stressful conditions. Eliminate role conflict among employees by involving them in the process of setting standards.
- ix) Train employees in time management.
- x) Measure employee performance and tie compensation and recognition to delivery of quality service.

### 4. Gap 4 Prescription:

#### Ensure that Communication Promises are Realistic

Seek inputs from operations personnel when new advertising programs are being created.

Develop advertising that features real employees performing their jobs. Allow service providers to preview advertisements before customers are exposed to them.

- i) Get sales staff to involve operations staff in face to face meetings with customers.
- ii) Develop internal educational, motivational and advertising campaigns to strengthen links among marketing, operations and human resource departments. Ensure that consistent standards of services are delivered across multiple locations. Ensure that advertising content accurately reflects those service characteristics that are most important to customers in their encounters with the organization.
- iii) Manage customers' expectations by letting them know what is and what is not possible and the reasons

### 5. Gap 5 Prescription - Putting It All

#### Together closing the Gaps.

Gap 5 is sum of gaps from gap 1 to gap 4 and is the overall comparison of what consumers expected from the service provider and their perception of service they received from the service provider.

Gap 1 Prescription:

Learn What Customers Expect

+

Gap 2 Prescription:

Establish the Right Service Quality Standards

+

Gap 3 Prescription:

Ensure that Service Performance Meets Standards

+

Gap 4 Prescription:

Ensure that Communication Promises are Realistic

Gap 5 Prescription: Putting It All Together

Putting it all together the prescription of all four gaps would result to reduction/closing of quality gap 5.

### 3.2.4 Service Excellence

**Q9. Explain about Service Excellence.**

*Ans :*

#### Service Excellence

"Service excellence" is an intangible and expansive concept. It undoubtedly means many different things to many different people. This note represents an effort not only to illustrate the multifaceted nature of service excellence, but also to highlight at least a sampling of the numerous components which go into providing excellent service.

#### Keys to Customer Service Excellence

Customer service is emerging as a critical differentiator for businesses. McKinsey suggests that the ability to have more effective customer interactions is hard to replicate and can produce lasting competitive advantage. Another study conducted by Forrester Research confirms the correlation between customer service and loyalty across 12 industries. The social megaphone has further elevated the importance of service to most businesses, with younger demographics, in particular, increasingly going social to bash brands when they have bad experiences. Cutting corners in service is no longer an option.

How can a business excel in customer service? How can customer-facing executives formulate a service strategy and make a business case for investments? To excel in service, you need to pay attention to four essential elements: positioning, proficiency, partners, and process.

#### 1. Positioning

Before you strategize in customer service, you need to know the role of service in your company's positioning and competitive differentiation. Is your company emphasizing service excellence in its annual reports, sales presentations, and employee communications? If you are in senior management,

what is your strategic intent for service? Once you have this understanding, you could use a simplified framework like the following, which includes four scenarios, to formulate a service strategy aligned with your strategic intent for service and the competitive service parity in your market space.

#### 2. Proficiency

Businesses can assess their service proficiency in comparison to that of their peers by "eating their own service dog food." An effective method is the "mystery shopping" approach, where analysts (in-house analysts or trusted third-party service providers) pose as buyers and seek customer service from your business. They can assess the speed, quality, consistency, and continuity of service across interaction channels—online, social, and phone, for example. They can then determine your market standing in service by repeating the same exercise with your competitors. This approach can help make a compelling business case to your C-suite for service investments.

#### 3. Partners

As you build up and present your business case, it's a good idea to enlist partners outside your organization to support your cause. Heads of marketing and sales can be your BFFs! Marketing wants to get high Net Promoter Scores and build the brand. The sales organization wants satisfied customers so they can expand the wallet share with those customers. Customer service also includes service before and during the purchase—not just after the sale is made. The sales organization, including the e-commerce team, has a vested interest in making these interactions effective and the purchase experience friction-free for customers.

#### 4. Process

Optimizing how a customer service query is routed and processed is critical to service excellence. A great way to uncover process gaps is to staple yourself to a customer service query, along the lines of the HBR classic "Staple Yourself to the Order," where the



authors discuss how to identify gaps in the customer order management cycle. You might want to “play customer” and test the most frequent service scenarios. While you are at it, try to get service through a single interaction channel like social or chat, and also go across channels to see if context is preserved in the transition or if you need to start over again and again, a major detractor for superior customer experiences.

### 3.3 SERVICE STANDARDS - FACTORS AND TYPES

**Q10. What is Service Standards ? and What are the Factors and Types of Service Standards?**

*Ans :*

A customer service standard is the interaction between a business and its customers. Customer service standards are excellence, response time, accessibility, delivery time and commitment. All business leads back to the customer in one form or another, so it is imperative that companies continuously strive to improve the level of service they deliver. Customer service standards must be constantly monitored and incorporated into the strategic planning of the company.

#### Factors Necessary for Appropriate Service Standards

##### A) Standardization of Service Behaviors and Actions

The translation of customer expectations into specific service quality standards depends on the degree to which tasks and behaviors to be performed can be standardized or routinized. Standardization usually implies a non-varying sequential process - similar to the mass production of goods - in which each step is laid out in order and all outcomes are uniform, whereas customization usually refers to some level of adaptation or tailoring of the process to the individual customer.

The goal of standardization is for the service firm to produce a consistent service product from one trans-action to the next. The goal of customization for the service firm”

is to develop services that meet each customer’s individual needs. Some executives and managers believe that services cannot be standardized that customization is essential for providing high-quality service. Managers also may feel that standardizing tasks is inconsistent with employee empowerment that employees will feel controlled by the company if tasks are standardized. Further, they feel that services are too intangible to be measured. This view leads to vague and loose standard setting with little or no measurement or feedback.

In reality, many service tasks are routine (such as those needed for opening checking accounts or spraying lawns for weeds), and for these, specific rules and standards can be fairly easily established and effectively executed. Employees may welcome knowing how to perform actions most efficiently: it frees them to use their ingenuity in the more personal and individual aspects of their jobs.

##### B) Formal Service Targets and Goals

Companies that have been successful in delivering consistently high service quality are noted for establishing formal standards to guide employees in providing service. These companies have an accurate sense of how well they are performing service that is critical to their customers—how long it takes to conduct transactions, how frequently service fails, how quickly they settle customer complaints—and strive to improve by defining goals that lead them to meet or exceed customer expectations.

One type of formal goal setting that is relevant in service businesses involves specific targets for individual behaviors or actions.

Another type of formal goal setting involves the overall department or company target, most frequently expressed as a percentage, across all executions of the behavior or action. A department might set as its overall goal “to call the customer back within four hours 97 percent of the time” and collect data over a month’s or year’s time to evaluate the extent to which it meets the target.

**C) Customer - Not Company - Defined Standards**

Virtually all companies possess service standards and measures that are company defined—they are established to reach internal company goals for productivity, efficiency, cost, or technical quality. One company-defined standard that often does not meet customer expectations is the common practice of voice-activated telephone support systems that do not allow consumers to speak to humans. Because these systems save companies money (and actually provide faster service to some customers), many organizations have switched from the labor-intensive practice of having customer representatives to these “automated” systems.

To close gap 2, standards set by companies must be based on customer requirements and expectations rather than just on internal company goals. In this chapter we make the case that company-defined standards are not typically successful in driving behaviors that close provider gap 2. Instead, a company must set customer-defined standards, operational standards based on pivotal customer requirements visible to and measured by customers. These standards are deliberately chosen to match customer expectations and to be calibrated the way the customer views and expresses them. Because these goals are essential to the provision of excellent service, the rest of this chapter focuses on customer-defined standards.

**Types of Customer Defined Service Standards**

Two major types of customer-defined service standards can be distinguished: “hard” and “soft.” These standards will be discussed in the following two sections.

**A) Hard Customer-Defined Standards**

All the FedEx standards that comprise its SQI fall into the category of hard standards and measures: things that can be counted, timed, or observed through audits. Many of FedEx’s standards relate to on-time delivery and not making mistakes, and for good reason. The

customer expectations of reliability - fulfillment of service promises - are high. Recent studies across numerous industries have found that the most frequent customer complaints are associated with poor product performance (29 percent of all complaints) and service mistakes or problems.

To address the need for reliability, companies can institute a “do it right the first time” and an “honor your promises” value system by establishing reliability standards. An example of a generic reliability standard that would be relevant to virtually any service company is “right first time,” which means that the service performed is done correctly the first time according to the customer’s assessment. If the service involves delivery of products, “right first time” to the customer might mean that the shipment is accurate—that it contains all that the customer ordered and nothing that the customer did not order.

If the service involves installation of equipment, “right first time” would likely mean that the equipment was installed correctly and was able to be used immediately by the customer.

**B) Soft Customer-Defined Standards**

Not all customer priorities can be counted, timed, or observed through audits. As Albert Einstein once said, “Not everything that counts can be counted, and not everything that can be counted, counts.” For example, “understanding and knowing the customer” is a customer priority that cannot be adequately captured by a standard that counts, times, or observes employees.

In contrast to hard measures, soft measures are those that must be documented using perceptual data. We call the second category of customer-defined standards soft standards and measures because they are opinion-based measures and cannot be directly observed. They must be collected by talking to customers, employees, or others. Soft standards provide direction, guidance, and feedback to employees in ways to achieve customer satisfaction and can be quantified

by measuring customer perceptions and beliefs. Soft standards are especially important for person-to-person interactions such as the selling process and the delivery process for professional services.

### One-Time Fixes

When customer research is undertaken to find out what aspects of service need to be changed, requirements can sometimes be met using one-time fixes. One-time fixes are technology, policy, or procedure changes that, when instituted, address customer requirements. We further define one-time fixes as those company standards that can be met by an outlet (e.g., a franchisee) making a one-time change that does not involve employees and therefore does not require motivation and monitoring to ensure compliance. We include one-time fixes in our discussion of standards because organizations with multiple outlets often must clearly define these standards to ensure consistency.

## 3.4 PHYSICAL EVIDENCE

### Q11. Explain the of Physical Evidence in importance of services marketing.

*Ans :* (Sep.-20)

The physical evidence of a service comes in different forms and guises. These include the physical aspects of the location of the service delivery such as the design, functionality, and aesthetics of the place. The airflow, decor, temperature, etc., create the right atmosphere for the service delivery. The equipment adds to the speed and presentation of the service setting like a shining Espresso coffee machine in a snack bar. The dress, uniform, appearance, and facial expressions of the front-line employees form a crucial part of this physical evidence. The stationery, the warranties, etc., are the elements of documentation, which serve to confirm the impressions about the service quality.

The physical evidence is defined as the environment in which the service is delivered and where the firm and the customers interact; and any tangible commodities that facilitate performance or communicate the service. It plays a role in enhancing customer's perception of the service quality.

Physical evidence is everything that a company physically exhibits to the customer. It includes the physical environment of the service outlet, the exterior, the interior, all tangibles like machinery, furniture, vehicles, stationery, signboards, communication materials, certificates, receipts, service personnel, and so on.

Physical evidence provides tangible cues to customers to develop service quality expectations. The physical environment facilitates performance of service by the service provider as well as the service customers. Because services are intangible, customers often rely on tangible cues, or physical evidence, to evaluate the service before its purchase and to assess their satisfaction with the service during and after consumption.

### Importance/Significance of Physical Evidence

#### 1. 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.

#### 2. Creating Good Impressions

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

#### 3. 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.

#### 4. 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.

#### 5. Service Quality Management

By taking care of minute things 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.

#### 6. 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 decor 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.

#### Elements of Physical Evidence

General elements of physical evidence are shown in table below. They include all aspects of the organization's physical facility (the service scape) as well as other forms of tangible communication.

<b>Servicescape</b>	<b>Other Tangibles</b>
<b>Facility Exterior</b>	Business cards
• Exterior design	Stationery
• Signage	Billing statements
• Parking	Reports
• Landscape	Employee dress
• Surrounding environment	Uniforms
<b>Facility Interior</b>	Brochures
• Interior design	Web pages
• Equipment	Virtual servicescape
• Signage	
• Layout	
• Air quality/temperature	

Services are low in search qualities, i.e., 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 or not. Some services are also high in credence qualities, i.e., the quality cannot be judged even after experiencing the service.

### Some of the Major Elements of Physical Evidence

#### 1. Physical Environment

It plays a very important role in customer satisfaction because it is perhaps the first tangible element that the customer comes into contact with. 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 exhibit to examine how the well-known bookstore, Crossword, enhances customer experience by using physical feature. In defining physical environment usually, the following aspects will be included :

- i) **Layout:** It refers to the design of the service outlet. A services outlet should be spacious and provide comfortable seats in case customers need to wait a while 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 service outlet offers multiple services, there should be signboards pointing the way to different service counters.
- ii) **Atmosphere:** 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.

- iii) **Aesthetics:** A customers' decision to re-visit a service outlet largely depends on its ambience. For example, some places 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 of the experience.
- 2. **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.
- 3. **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.

4. **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.
5. **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.
6. **Brand/Corporate Identity:** The brand adds tangibility to pure service. For example, a person is more confident about handing-over car for repair to a company-owned service centre (like Maruti, Hyundai or Indica.) Than to mechanic working by himself. The mechanic may be fully capable of servicing the car well but the brand value, which the mechanic lacks, makes the customer prefer a car company's services.

#### 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.

#### 1. 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.

#### 2. 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 amusement parks, that enable the customer to gain entry into the complex, also constitute peripheral evidence.

#### How does Physical Evidence Affect the Customer Experience

Physical evidence, particularly the service scape, can have a profound effect on the customer experience. This is true whether the experience is mundane (e.g., a bus or subway ride), personally meaningful (e.g., a church wedding experience, or a birthing room at a hospital), or spectacular (e.g., a week-long travel adventure). In all cases, the physical evidence of the service will influence the flow of the experience, the meaning customers attach to it, their satisfaction, and their emotional connections with the company delivering the experience.

As marketers and corporate strategists begin to pay more attention to experiences, they have recognized the impact of physical space and tangibles in creating those experiences. Lewis Carbone, a leading consultant on experience management, has developed an entire lexicon and management process around the basic idea of "experience engineering" through "clue management." Clue management refers to the process of clearly identifying and managing all the various clues that customers use to form their impressions and feelings about the company.

Included in this set of clues are what Carbone refers to as mechanics clues, or the physical and tangible clues that we focus on in this chapter. Other writers and consultants who focus on managing customer experiences also zero in on the importance of tangible evidence and physical facilities in shaping those experiences. Throughout this chapter are numerous examples of how physical evidence communicates with customers and shapes their experiences.

### 3.4.1 Managing Physical Evidence

#### Q12. How to Managing Physical Evidence.

*Ans :*

#### Strategies for Managing Physical Evidence Strategies

##### 1. Recognize the Strategic Impact of Physical Evidence

Physical evidence can play a prominent role in determining service quality expectations and perceptions. For some organizations, just acknowledging the impact of physical evidence is a major first step. After this step they can take advantage of the potential of physical evidence and plan strategically.

For an evidence strategy to be effective, it must be linked clearly to the organization's overall goals and vision. Thus planners must know what those goals are and then determine how the evidence strategy can support them.

##### 2. Map the Physical Evidence of Service

The next step is to map the service. Everyone should be able to see the service process and

the existing elements of physical evidence. An effective way to depict service evidence is through the service map, or blueprint.

While service maps clearly have multiple purposes, they can be particularly useful in visually capturing physical evidence opportunities. People, process, and physical evidence can be seen in the service map.

##### 3. Clarify Roles of the Servicescape

There are various roles played by the servicescape and how firms could locate themselves to identify their roles in their particular cases.

Sometimes the servicescape may have no role in service delivery or marketing from the customer's point of view. This is essentially the case for telecommunications services or utilities. Clarifying the roles played by the servicescape in a particular situation aids in identifying opportunities and deciding just who needs to be consulted in making facility design decisions.

##### 4. Assess and Identify Physical Evidence Opportunities

Once the current forms of evidence and the roles of the servicescape are understood, possible changes and improvements can be identified. One question to ask is, Are there missed opportunities to provide service evidence? The service map of an insurance or utility service may show that little if any evidence of service is ever provided to the customer. A strategy might then be developed to provide more evidence of service to show customers exactly what they are paying for.

##### 5. Be Prepared to Update and Modernize the Evidence

Some aspects of the evidence, particularly the servicescape, require frequent or at least periodic updating and modernizing. Even if the vision, goals, and objectives of the company do not change, time itself takes a toll on physical evidence, necessitating change and modernization. There is clearly an element of fashion involved, and over time

different colors, designs, and styles may come to communicate different messages. Organizations obviously understand this when it comes to advertising strategy, but sometimes they overlook other elements of physical evidence.

#### 6. Work Cross-Functionally

In presenting itself to the consumer, a service firm is concerned with communicating a desired image, with sending consistent and compatible messages through all forms of evidence, and with providing the type of service evidence the target customers want and can understand. Frequently, however, evidence decisions are made over time and by various functions within the organization. Service mapping, or blue-printing, can be a valuable tool for communicating within the firm, identifying existing service evidence, and providing a springboard for changing or providing new forms of physical evidence.

### 3.5 THE SERVICES SCAPES

#### Q13. Discuss about the Services Scapes.

*Ans :* (Dec.-19)

Servicescape is a concept that was developed by Booms and Bitner to emphasize the impact of the physical environment in which a service process takes place.

According to Booms and Bitner, "Service scape is the environment in which the service is assembled and in which the seller and customer interact, combined with tangible commodities that facilitate performance or communication of the service".

Servicescape may be likened to 'landscape'. It includes facilities exterior (landscape, exterior design, signage, parking, surrounding environment) and facilities interior (interior design and decor, equipment, signage, layout, air quality, temperature and ambiance). Servicescape along with other tangibles like business cards, stationary, billing statements, reports, employee dress, uniforms, brochures, web pages and virtual servicescape forms the 'Physical Evidence' in marketing of services.

A typology of service organizations is presented and a conceptual framework is advanced for exploring the impact of physical surroundings on the behaviors of both customers and employees. The ability of the physical surroundings to facilitate achievement of organizational as well as marketing goals is explored. Literature from diverse disciplines provides theoretical grounding for the framework, which serves as a base for focused propositions. By examining the multiple strategic roles that physical surroundings can exert in service organizations, the author highlights key managerial and research implications.

The nature of the service activity and service consumption experience sought by consumers will influence the design of a servicescape. The basic principle that guides the design is user friendliness. Therefore, service companies should first identify the users of the servicescape.

#### Types of Servicescapes

The physical setting may be more or less important in achieving the organization's marketing and other goals depending on certain factors. Organizations that share a cell in the matrix will face similar issues and decisions regarding their physical spaces.

##### 1. Servicescape Use:

First, organizations differ in terms of whom the servicescape will actually affect. That is, who actually comes into the service facility and thus is potentially influenced by its design - customers, employees, or both groups?

##### i) Self-Service:

At one extreme is the self-service environment, where the customer performs most of the activities and few if any employees are involved. For example, self-service environments include ATMs, movie theaters, express mail drop-off facilities, self-service entertainment such as golf and theme parks, and online Internet services. In these primarily self-service environments the organization can plan the servicescape focusing exclusively on marketing goals such as attracting the right market segment and making the facility pleasing and easy to use.



## ii) Remote Services:

At the other extreme of the use dimension is the remote service, where there is little or no customer involvement with the servicescape. For example, the services that can be provided without the customer ever seeing the service facility are Telecommunications, utilities, financial consultants, editorial, and mail-order services. In fact, the facility may be in a different state or a different country.

In these remote services, decisions about how the facility should be designed can focus almost exclusively on the employees' needs and preferences. The place can be set-up to keep employees motivated and to facilitate productivity, teamwork, operational efficiency, or whatever organizational behavior goal is desired without any consideration of customers because they will never need to see the servicescape.

## iii) Interpersonal Services:

In interpersonal services are placed between the two extremes and represent situations where both the customer and the employee must be present in the servicescape. For example, restaurants, hospitals educational settings and banks. In these cases, the servicescape must be planned to attract, satisfy and facilitate the activities of both customers and employees simultaneously. Special attention must also be given to how the servicescape affects the nature and quality of the social interactions between and among customers and employees.

## 2. Complexity of the Servicescape:

The horizontal dimension of suggests another factor that will influence servicescape management. Some service environments are very simple, with few elements, few spaces and few pieces of equipment. Such environments are termed lean. Shopping mall information kiosks and FedEx drop-off facilities would be considered lean environments because both provide service from one simple structure. For lean servicescapes, design decisions are relatively straightforward, especially in self-service or

remote service situations in which there is no interaction among employees and customers.

## 3. Typology Implications:

By locating itself in the appropriate cell of the typology, an organization can start to answer the following questions:

### i) Who should be Consulted in making Servicescape and other Evidence Decisions:

If a company finds itself in the self-service cell, it can focus on the needs and preferences of customers. If it is in the remote service cell, it can focus on employees. If, however, the organization finds itself in one of the interpersonal service cells, it will know that decisions about the servicescape can potentially affect both: customers and employees, as well as their interactions. Thus, both groups' needs and preferences should be considered, suggesting a more difficult decision process.

### ii) What Organizational Goals might be Targeted through Servicescape Design:

For self-service firms, the focus can be on marketing goals such as customer attraction and customer satisfaction. For remote service firms, priority can be given to workgroup needs and employee motivation, productivity and satisfaction in designing the service facility. For interpersonal services, both marketing and organizational goals could potentially be targeted, with the understanding that the solutions for one set of goals may not be compatible with the other set.

### iii) How Complex is the Set of Decisions regarding the Servicescape:

Decisions will clearly be more complex for elaborate than for lean service environments. The more elaborate the servicescape in terms of spaces, equipment and diversity of services delivered, the more complex will be decisions about its design. Added complexity will also require more resources in terms of time, money, and people involvement in design decisions. The most complex servicescape decisions will be in the elaborate,

interpersonal services cell where multiple needs (employees, customers, and their interactions) will be considered as well.

### Objectives and Goals of the Servicescape

The objectives and goals of the servicescapes vary depending on whether the service firm's primary focus is on customers, employees, or the firm itself.

#### 1. Focus on Customers:

If the servicescape is designed to focus on the needs of customers, then the service company has three primary goals it will want to accomplish with the servicescape; customer attraction, customer satisfaction, and customer retention.

#### 2. Focus on Employees:

If the firm has chosen technical service quality, the primary goal of the servicescape is to focus on the needs of employees, including employee satisfaction, employee motivation, and employee operational efficiency. If employees are happy with the servicescape in which they work, they will produce a higher level of service. Although customer needs must be met, the emphasis on facility design with this approach is toward employees.

#### 3. Focus on the Firm:

Firms using this cost-efficiency operational approach will want to design their physical facility to focus on the needs of the firm. The objective of the physical design is to provide optimal cost efficiency and productivity. The customer contact area of a fast-food restaurant should be designed to maximize the number of customers that can be served. The kitchen area should be designed to increase productivity of the employees, allowing the firm to serve more customers.

### Role of the Servicescape

Roles played by servicescape are significant and service marketer must be taken into consideration.

#### 1. Package:

Similar to a tangible product's package, the servicescape and other elements of physical evidence essentially "wrap" the service and

convey an external image of what is "inside" to consumers. Product packages are designed to portray a particular image as well as to evoke a particular sensory or emotional reaction. The physical setting of a service does the same thing through the interaction of many complex stimuli. The servicescape is the outward appearance of the organization and thus can be critical in forming initial impressions or creating expectations - it is a visual metaphor for the intangible service.

#### 2. Facilitator:

The servicescape can also serve as a facilitator in aiding the performances of persons in the environment. How the setting is designed can enhance or inhibit the efficient flow of activities in the service setting, making it easier or harder for customers and employees to accomplish their goals. A well-designed, functional facility can make the service a pleasure to experience from the customer's point of view and a pleasure to perform from the employee's. On the other hand, poor and inefficient design may frustrate both customers and employees.

#### 3. Socializer:

The design of the servicescape aids in the socialization of both employees and customers in the sense that it helps to convey expected roles, behaviors, and relationships. For example, a new employee in a professional services firm would come to understand her position in the hierarchy partially through noting her office assignment, the quality of her office furnishings, and her location relative to others in the organization.

The design of the facility can also suggest to customers what their role is relative to employees, what parts of the servicescape they are welcome in and which are for employees only, how they should behave while in the environment, and what types of interactions are encouraged.

#### 4. Differentiator:

The design of the physical facility can differentiate a firm from its competitors and signal the market segment, the service is

intended for given its power as a differentiator, changes in the physical environment can be used to reposition a firm and/or to attract new market segments. In shopping malls the signage, colors used in decor and displays, and type of music wafting from a store signal the intended market segment.

### **Approaches for Understanding Servicescape Effects**

To design environments that work from both marketing and organizational behavior perspectives, firms need to research environmental decisions and plan them strategically. The needs of ultimate users and the requirements of various functional units must be incorporated into environmental design decisions.

Various means whereby an organization can learn about users' reactions to and preferences for different types of environments are as follows:

#### **1. Environment Surveys:**

An environment survey asks people (either customers or employees) to express their needs and preferences for different environmental configurations by answering predetermined questions in a questionnaire format.

The advantages of surveys are the ease of administration and interpretation of results. Usually the data are collected via standardized questions and the results can be entered into a computer and easily interpreted. Thousands of questionnaires can be sent-out or administered over the phone, so sample sizes can be very large and many environmental variables can be explored simultaneously.

The primary disadvantage of an environmental survey is that sometimes the results may be less valid than results from other methods - i.e., the answers to the survey questions may not truly reflect how people feel or how they will behave.

#### **2. Direct Observation:**

Using observation methods, trained observers make detailed accounts of environmental conditions and dimensions, also observing and recording the reactions and behaviors of customers and employees in the servicescape.

The advantages of direct observation, when done by highly trained and skilled observers, are the depth of information acquired and its accuracy. The inter relationship of elements of the environment and the reactions and interactions of participants in the environment can be unobtrusively recorded, increasing the validity of the findings beyond what is typically found in a standardized survey. The findings could be very useful in re-designing the service scape or in comparing different facilities.

The disadvantages of direct observation are primarily related to time and costs:

- i) The researchers who observe the servicescape must be highly trained and skilled in ethnographic methods, which make data collection expensive.
- ii) They must be allowed to observe for some period of time, and the interpretation of their detailed records can be very labor intensive.

Unlike the survey method, the data cannot as a rule be entered into a computer and analyzed with nice, clean quantitative results.

#### **3. Experiments:**

Experimental methods are among the best ways to assess specific customer and employee reactions to environmental changes or alternatives when it is important to know their true reactions and preferences. Experiments involve exposing groups of customers to different environmental configurations and measuring their reactions. In a study, background music type and tempo

have been varied in grocery stores and restaurants and the effect on traffic pace, sales and other variables has been measured. In both cases, the type of music played had an effect on sales.

The advantages of experiments lie primarily in the validity of the results; i.e., if the experiment is carefully done, one can believe and rely on the results. Because environmental dimensions often affect people subconsciously and the multitude of dimensions interacts to form a composite impression, it is difficult to get accurate responses to questions about the environment in the absence of actual experience.

The disadvantages of experiments relate primarily to costs and time. Ideally, actual servicescape prototypes would be designed and various groups of consumers would respond to the alternatives.

4. **Photographic Blueprints:** A photographic blueprint essentially provides a visualization of the service at each customer action step. The visual can be a slide, a photograph, or the entire service process as videotaped from the customer's point of view. By combining a service blueprint with photos, managers and other service employees can see the evidence of service from the customer's point of view. The photographic blueprint can provide a powerful analytic tool to begin assessing the service process.

As an advantage, Photographic blueprints are extremely useful in providing clear and logical documentation of the physical evidence as it currently exists in a given service situation.

The main disadvantage of a photographic blueprint is that it is just a starting point. In and of itself it does not answer any questions, but many questions can be asked of it. It does not give any clues as to customer and employee preferences and needs; it could, however, be used as a catalyst for gathering customer and employee opinions.

### 3.5.1 Framework for Understanding Service scape Effects on Behavior

**Q14. Explain the Framework for Understanding Service scape Effects on Behavior.**

*Ans :*

(Dec.-19)

Although it is useful from a strategic point of view to think about the multiple roles of the servicescape and how they interact, making actual decisions about servicescape design requires an understanding of why the effects occur and how to manage them.

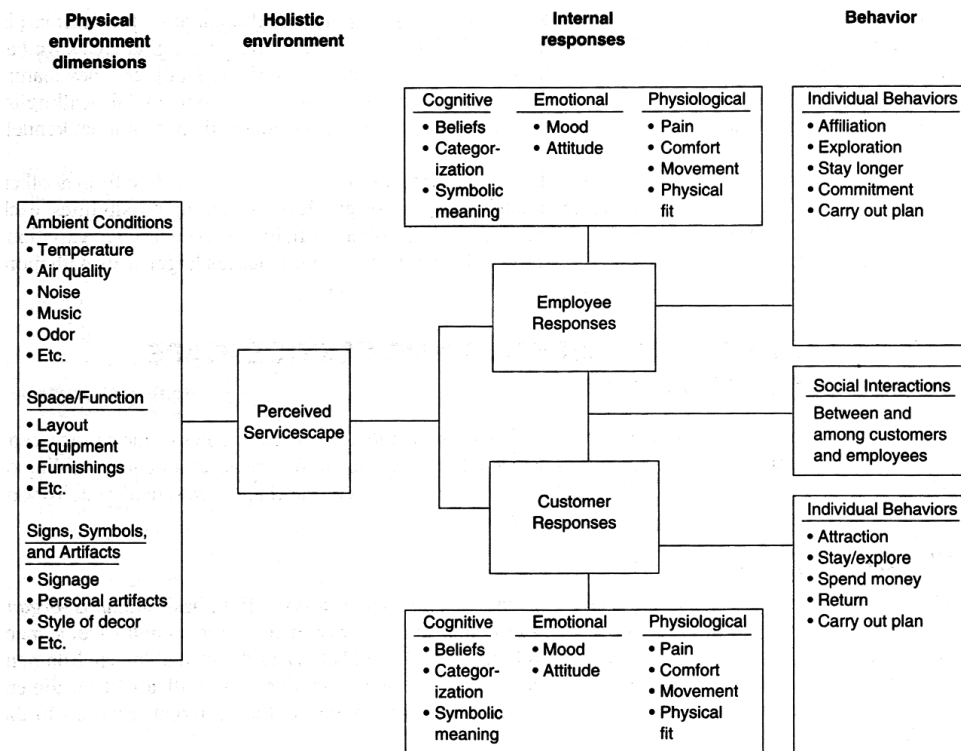
#### The Underlying Framework

The framework for understanding servicescape effects on behavior follows from basic stimulus-organ-ism-response theory. In the framework the multidimensional environment is the stimulus, consumers and employees are the organisms that respond to the stimuli, and behaviors directed at the environment are the responses. The assumptions are that dimensions of the servicescape will affect customers and employees and that they will behave in certain ways depending on their internal reactions to the servicescape.

A specific example will help illustrate the theory in action. Assume there is a cookie cart that is parked outside the student union on campus. The cart is colorful and playful in design, and an aroma of baking cookies wafts from it. The design and the aroma are two elements of the servicescape that will affect customers in some way. Now assume you are a hungry student, just out of class, strolling across campus. The fun design of the cart attracts your attention, and simultaneously you smell baking cookies.

The fun design and the delicious smell cause you to feel happy, relaxed, and hungry at the same time. You are attracted to the cart and decide to buy a cookie because you have another class to attend before lunch. The movement toward the cart and the purchase of a cookie are behaviors directed at the servicescape. Depending on how much time you have, you may even choose to converse with the vendor or other customers standing around munching cookies, other forms of behavior directed at the servicescape.

The framework shown in Figure is detailed in the next sections. It represents a comprehensive stimulus-organism-response model that recognizes complex dimensions of the environment, impacts on multiple parties (customers, employees, and their interactions), multiple types of internal responses (cognitive, emotional, and physiological), and a variety of individual and social behaviors that can result.



**Fig. : A Framework for Understanding Environment-User Relationships in Service Organizations**

Our discussion of the framework will begin on the right side of the model with behaviors. Next we will explain and develop the internal responses portion of the model. Finally we will turn to the dimensions of the environment and the holistic perception of the environment.

#### A) Behaviors in the Servicescape

That human behavior is influenced by the physical setting in which it occurs is essentially a truism. Interestingly, however, until the 1960s psychologists largely ignored the effects of physical setting in their attempts to predict and explain behavior. Since that time, a large and steadily growing body of literature within the field of environmental psychology has addressed the relationships between human beings and their built environments. Recent marketing focus on the customer experience has also drawn attention to the effects of physical spaces and design on customer behavior.

##### 1. Individual Behaviors

Environmental psychologists suggest that individuals react to places with two general, and opposite, forms of behavior: approach and avoidance. Approach behaviors include all positive behaviors that might be directed at a particular place, such as desire to stay, explore, work, and affiliate. Avoidance behaviors reflect the opposite—a desire not to stay, to explore, to work, or to affiliate. In a study of consumers in retail environments, researchers found that approach behaviors (including

shopping enjoyment, returning, attraction and friendliness toward others, spending money, time spent browsing, and exploration of the store) were influenced by perceptions of the environment. At one 7-Eleven store, the owners played "elevator music" to drive away the youthful market segment that was detracting from the store's image.

## 2. Social Interactions

In addition to its effects on their individual behaviors, the servicescape influences the nature and quality of customer and employee interactions, most directly in interpersonal services. It has been stated that "all social interaction is affected by the physical container in which it occurs." The "physical container" can affect the nature of social interaction in terms of the duration of interaction and the actual progression of events. In many service situations, a firm may want to ensure a particular progression of events (a "standard script") and limit the duration of the service. Environmental variables such as physical proximity, seating arrangements, size, and flexibility can define the possibilities and limits of social episodes such as those occurring between customers and employees, or customers and other customers.

## B) Internal Responses to the Servicescape

Employees and customers respond to dimensions of their physical surroundings cognitively, emotionally, and physiologically, and those responses are what influence their behaviors in the environment (as shown in the middle portion of Figure 11.1). In other words, the perceived servicescape does not directly cause people to behave in certain ways. Although the internal responses are discussed independently here, they are clearly interdependent: a person's beliefs about a place, a cognitive response, may well influence the person's emotional response, and vice versa. For example, patients who come into a dentist's office that is designed to calm and smooth their anxieties (emotional responses) may believe as a result that the dentist is caring and competent (cognitive responses).

## 1. Environment and Cognition

The perceived servicescape can have an effect on people's beliefs about a place and their beliefs about the people and products found in that place. In a sense, the servicescape can be viewed as a form of nonverbal communication, imparting meaning through what is called "object language."

## 2. Environment and Emotion

In addition to influencing beliefs, the perceived servicescape can directly elicit emotional responses that, in turn, influence behaviors. Just being in a particular place can make a person feel happy, lighthearted, and relaxed, whereas being in another place may make that person feel sad, depressed, and gloomy. The colors, decor, music, and other elements of the atmosphere can have an unexplainable and sometimes very subconscious effect on the moods of people in the place.

## 3. Environment and Physiology

The perceived servicescape may also affect people in purely physiological ways. Noise that is too loud may cause physical discomfort, the temperature of a room may cause people to shiver or perspire, the air quality may make it difficult to breathe, and the glare of lighting may decrease ability to see and may cause physical pain. All these physical responses may, in turn, directly influence whether people stay in and enjoy a particular environment.

## 4. Variations in Individual Responses

In general, people respond to the environment in the ways just described - cognitively, emotionally, physiologically - and their responses influence how they behave in the environment. However, the response will not be the same for every individual, every time. Personality differences as well as temporary conditions such as moods or the purpose for being there can cause variations in how people respond to the servicescape.

### C) **Environmental Dimensions of the Servicescape**

The preceding sections have described customer and employee behaviors in the servicescape and the three primary responses - cognitive, emotional, and physiological - that lead to those behaviors. In this section, we turn to the complex mix of environmental features that influence these responses and behaviors (the left portion of Figure).

Specifically, environmental dimensions of the physical surroundings can include all the objective physical factors that can be controlled by the firm to enhance (or constrain) employee and customer actions. There is an endless list of possibilities: lighting, color, signage, textures, quality of materials, style of furnishings, layout, wall decor, temperature, and so on. In Figure and in the discussion that follows here, the hundreds of potential elements have been categorized into three composite dimensions: ambient conditions; spatial layout and functionality; and signs, symbols, and artifacts.

#### 1. **Ambient Conditions**

Ambient conditions include background characteristics of the environment such as temperature, lighting, noise, music, scent, and color. As a general rule, ambient conditions affect the five senses. Sometimes such dimensions may be totally imperceptible (gases, chemicals, infrasound) yet have profound effects, particularly on employees who spend long hours in the environment.

#### 2. **Spatial Layout and Functionality**

Because service environments generally exist to fulfill specific purposes or needs of customers, spatial layout and functionality of the physical surroundings are particularly important. Spatial layout refers to the ways in which machinery, equipment, and furnishings are arranged; the size and shape of those items; and the spatial relationships among them. Functionality refers to the ability of the same items to facilitate the accomplishment of customer and employee goals.

The spatial layout and functionality of the environment are particularly important for customers in self-service environments, where they must perform the service on their own and cannot rely on employees to assist them. Thus, the functionality of an ATM machine and of self-serve restaurants, gasoline pumps, and Internet shopping are critical to success and customer satisfaction.

The importance of facility layout is particularly apparent in retail, hospitality, and leisure settings, where research shows it can influence customer satisfaction, store performance, and consumer search behavior.

#### 3. **Signs, Symbols, and Artifacts**

Many items in the physical environment serve as explicit or implicit signals that communicate about the place to its users. Signs displayed on the exterior and interior of a structure are examples of explicit communicators. They can be used as labels (name of company, name of department, and so on), for directional purposes (entrances, exits), and to communicate rules of behavior (no smoking, children must be accompanied by an adult). Adequate signs have even been shown to reduce perceived crowding and stress.

Other environmental symbols and artifacts may communicate less directly than signs, giving implicit cues to users about the meaning of the place and norms and expectations for behavior in the place. Quality construction materials, artwork, certificates and photographs, floor coverings, and personal objects displayed in the environment can all communicate symbolic meaning and create an overall aesthetic impression.

## Short Question and Answers

### 1. Service Innovation.

*Ans :*

The concept of Service Innovation was first discussed in Miles (1993) and has been developed in the past 2 decades. It is used to refer to many things. These include but not limited to :

1. Innovation in services, in service products new or improved service products (commodities or public services). Often this is contrasted with "technological innovation", though service products can have technological elements. This sense of service innovation is closely related to Service design and "new service development".
2. Innovation in service processes new or improved ways of designing and producing services. This may include innovation in service delivery systems, though often this will be regarded instead as a service product innovation. Innovation of this sort may be technological, technique - or expertise - based, or a matter of work organization (e.g. restructuring work between professionals and paraprofessionals).
3. Innovation in service firms, organizations, and industries - organizational innovations, as well as service product and process innovations, and the management of innovation processes, within service organizations.

### 2. Service Quality.

*Ans :*

Service quality is a comparison of expectations with performance

"Service quality is a focused evaluation that reflects the customer's perception of specific dimensions of service: reliability, responsiveness, assurance, Empathy, tangibles. Satisfaction, on other hand, is more inclusive: it is influenced by perceptions of service quality, product quality, and price as well as situational factors and personal factors

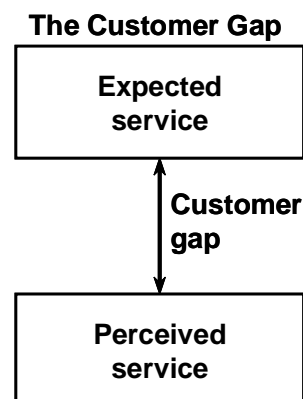
Service quality affects customer satisfaction by providing performance (real benefits). "The creation of customer satisfaction can provide several benefits, including the relationship between companies and consumers are harmonious, providing a good basis for the purchase and recreation of customer loyalty, and form a recommendation by word of mouth that can benefit the company".

### 3. Customer Gap.

*Ans :*

The customer gap is the difference between customer expectations and perceptions Figure. Customer expectations are standards or reference points that customers bring into the service experience, whereas customer perceptions are subjective assessments of actual service experiences. Customer expectations often consist of what a customer believes should or will happen.

For example, when you visit an expensive restaurant, you expect a high level of service, one that is considerably superior to the level you would expect in a fast-food restaurant. Closing the gap between what customers expect and what they perceive is critical to delivering quality service; it forms the basis for the gaps model.



**Fig.: The Customer Gap**



#### 4. Service Excellence.

*Ans :*

##### Service Excellence

"Service excellence" is an intangible and expansive concept. It undoubtedly means many different things to many different people. This note represents an effort not only to illustrate the multifaceted nature of service excellence, but also to highlight at least a sampling of the numerous components which go into providing excellent service.

##### Keys to Customer Service Excellence

Customer service is emerging as a critical differentiator for businesses. McKinsey suggests that the ability to have more effective customer interactions is hard to replicate and can produce lasting competitive advantage. Another study conducted by Forrester Research confirms the correlation between customer service and loyalty across 12 industries. The social megaphone has further elevated the importance of service to most businesses, with younger demographics, in particular, increasingly going social to bash brands when they have bad experiences. Cutting corners in service is no longer an option.

How can a business excel in customer service? How can customer-facing executives formulate a service strategy and make a business case for investments? To excel in service, you need to pay attention to four essential elements: positioning, proficiency, partners, and process.

#### 1. Positioning

Before you strategize in customer service, you need to know the role of service in your company's positioning and competitive differentiation. Is your company emphasizing service excellence in its annual reports, sales presentations, and employee communications? If you are in senior management, what is your strategic intent for service? Once you have this understanding, you could use a simplified framework like the following, which includes four scenarios, to formulate a service strategy aligned with your strategic intent for service and the competitive service parity in your market space.

#### 2. Proficiency

Businesses can assess their service proficiency in comparison to that of their peers by "eating their own service dog food." An effective method is the "mystery shopping" approach, where analysts (in-house analysts or trusted third-party service providers) pose as buyers and seek customer service from your business. They can assess the speed, quality, consistency, and continuity of service across interaction channels online, social, and phone, for example. They can then determine your market standing in service by repeating the same exercise with your competitors. This approach can help make a compelling business case to your C-suite for service investments.

#### 5. Customer Service Standard.

*Ans :*

A customer service standard is the interaction between a business and its customers. Customer service standards are excellence, response time, accessibility, delivery time and commitment. All business leads back to the customer in one form or another, so it is imperative that companies continuously strive to improve the level of service they deliver. Customer service standards must be constantly monitored and incorporated into the strategic planning of the company.

#### 6. Physical Evidence.

*Ans :*

The physical evidence of a service comes in different forms and guises. These include the physical aspects of the location of the service delivery such as the design, functionality, and aesthetics of the place. The airflow, decor, temperature, etc., create the right atmosphere for the service delivery. The equipment adds to the speed and presentation of the service setting like a shining Espresso coffee machine in a snack bar. The dress, uniform, appearance, and facial expressions of the front-line employees form a crucial part of this physical evidence. The stationery, the warranties, etc., are the elements of documentation, which serve to confirm the impressions about the service quality.

The physical evidence is defined as the environment in which the service is delivered and where the firm and the customers interact; and any tangible commodities that facilitate performance or communicate the service. It plays a role in enhancing customer's perception of the service quality.

Physical evidence is everything that a company physically exhibits to the customer. It includes the physical environment of the service outlet, the exterior, the interior, all tangibles like machinery, furniture, vehicles, stationery, signboards, communication materials, certificates, receipts, service personnel, and so on.

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#### 7. The Services Scapes.

*Ans :*

Servicescape is a concept that was developed by Booms and Bitner to emphasize the impact of the physical environment in which a service process takes place.

According to Booms and Bitner, "Service scape is the environment in which the service is assembled and in which the seller and customer interact, combined with tangible commodities that facilitate performance or communication of the service".

Servicescape may be likened to 'landscape'. It includes facilities exterior (landscape, exterior design, signage, parking, surrounding environment) and facilities interior (interior design and decor, equipment, signage, layout, air quality, temperature and ambiance). Servicescape along with other tangibles like business cards, stationary, billing statements, reports, employee dress, uniforms, brochures, web pages and virtual servicescape forms the 'Physical Evidence' in marketing of services.

## UNIT IV

**Managing Service Operations:** Service Process, Service Blueprinting, Managing Demand and Supply, Participants in Services - Employee's roles in Service Delivery, Customer's roles in Service Delivery, Mass Production and Delivery, Service Guarantee, Ethics in Service Firms.

### 4.1 SERVICE OPERATIONS PROCESS

**Q1. Explain about Service Operations Process.**

*Ans :*

Service operations are mainly associated with efficiency, effectiveness, Quality and Cost. Dimensions of service quality are Reliability, Responsiveness, Assurance, Empathy and Tangibles.

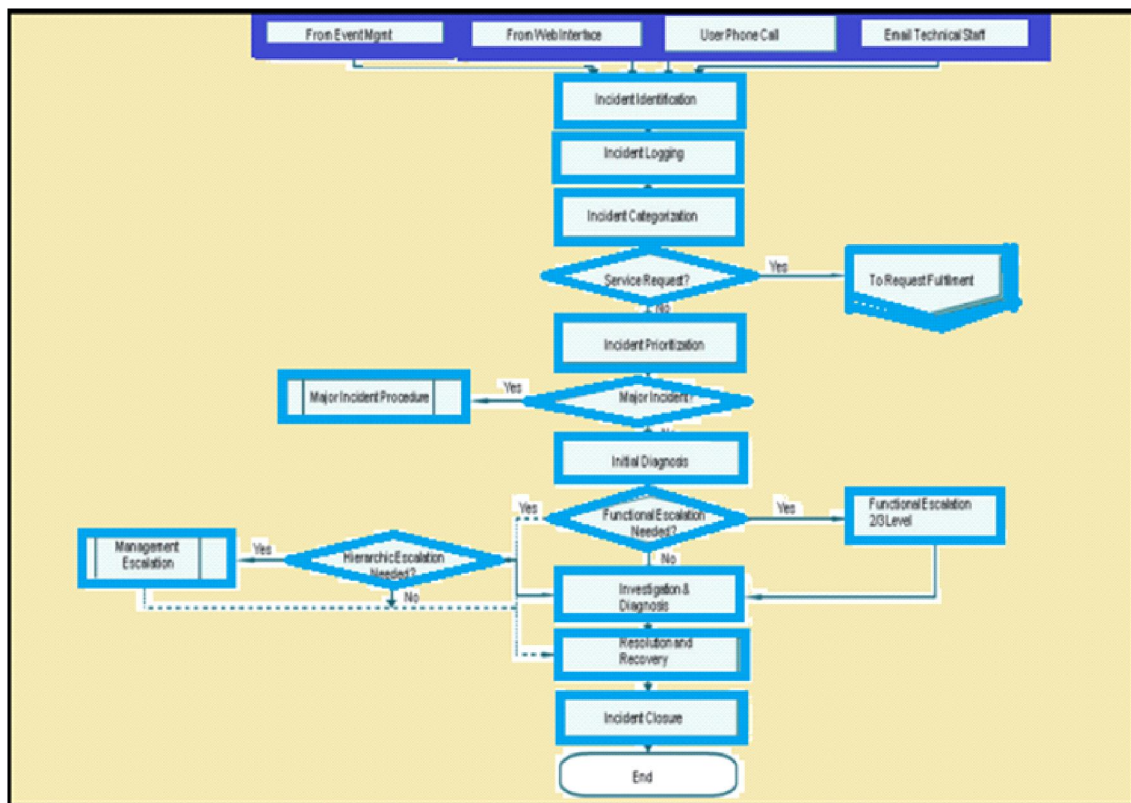
There are five Service operation processes:

#### 1. Request fulfillment

Request fulfillment is the process to deal with service requests via the Service Desk, using a process similar but separate to that of incident management. Request fulfillment records/tables are linked, where necessary, to the incident or problem records that initiated the need for the request. Major aims of the request fulfillment process to provide a channel for users to request and receive standard services for which a predefined approval qualification process exists, to give information to users and customers about the availability of services and the procedure for obtaining them, to source and deliver the components of requested standard services and help with general information, complaints or comments. It effectively decreases the bureaucracy involved in requesting and receiving access to existing or new services, thereby reducing the cost of providing these services.

#### 2. Incident management

Incident management is highly noticeable to companies and it is easier to demonstrate its value than in most areas of service operation. Incident management is often one of the first processes to be implemented in service management projects. The major benefit of doing this is that incident management can be used to high spot other areas that need attention, thus providing a reason for implementing processes. The purpose of incident management is to reinstate normal service operation as quickly as possible and diminish the adverse impact of the Incident on business operations, thus ensuring that the best possible levels of service quality and availability are maintained. Incident management process.



### 3. Problem management

This is vital for companies. Problem management comprises of the activities required to identify the root cause of incidents and to determine the resolution to the problems. It is also responsible for ensuring that the resolution is implemented through the appropriate control procedures. Effective problem management stops the recurrence of incidents and has benefits to the individual and the organization as it improves availability and user productivity. Major aim of this service process is to lessen the adverse impact of incidents and problems on the business that are caused by errors within the information technology infrastructure, and to prevent recurrence of incidents related to these errors.

### 4. Access management

Access management is the procedure to grant authorized users the right to use a service, while preventing access to non-authorized users. It is, therefore, the execution of policies and actions are defined in information security and availability management. The objectives of access management are Protecting Confidentiality, Integrity and Availability (CIA), sometimes knowing as Rights Management or Identity, Management, Security incidents and problems related to access management is discreetly recorded. Access management ensures that users are given the right to use a service, but it does not ensure that this access is available at all agreed times. This is provided by availability management.

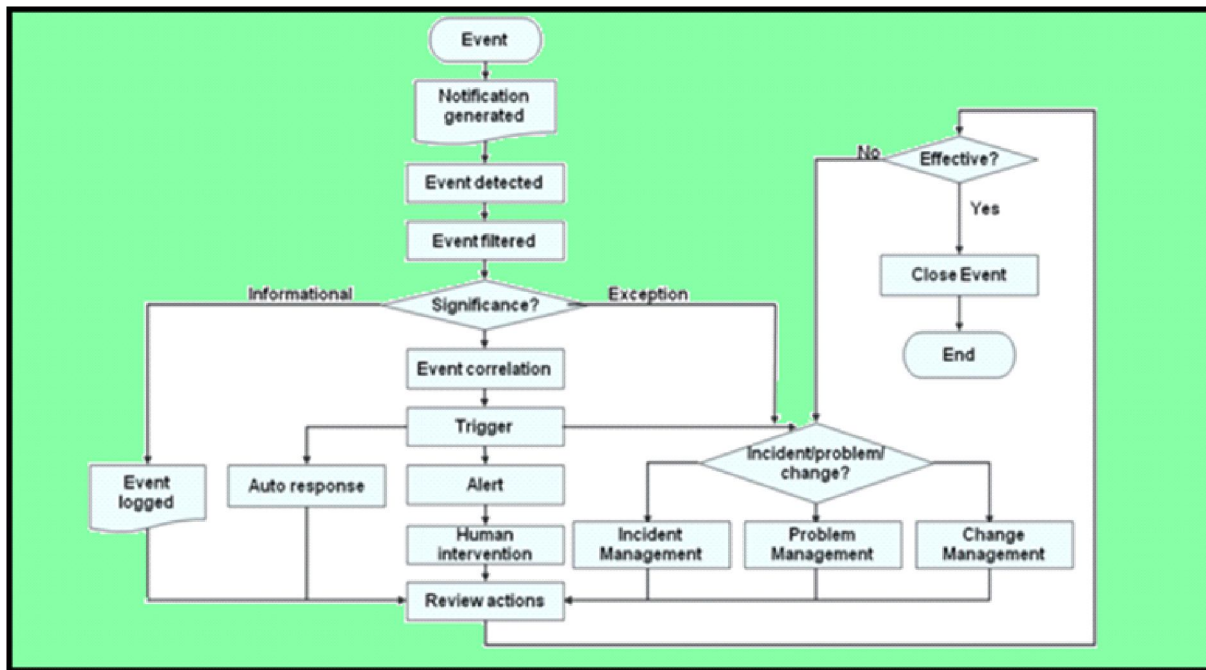
### 5. Event management

In this process, effective service operation is dependent on knowing the status of the infrastructure and detecting any deviation from normal or expected operation. The objectives of event

management to provide the entry point for the execution of many service operation processes and activities. Additionally, it provides a way of comparing actual performance and behaviour against design standards and Service Level Agreements.

Other aims include the ability to detect, interpret and initiate appropriate action for events, basis for operational monitoring and control and the entry point for many service operation activities, offer operational information as well as warnings and exceptions to aid automation and supports continual service improvement activities of service assurance and reporting.

Event management can be applied to any aspect of service management that needs to be controlled and which can be automated such as configuration Items, environmental conditions, software licence monitoring for usage to ensure optimum/legal licence utilisation and allocation, security and normal activity.



Major advantages within service operation are as under:

1. **Scalability:** Service organization can be adapted for any size of organization.
2. **Reduction in costs:** Service organization has established its value in reducing the overall cost of managing services.
3. **Improved quality:** Service organization helps improve the quality of IT services through sound management practices.
4. **Alignment to standards:** Service organization may well align to the ISO/IEC 20000 Standard for Service Management.
5. **Return on Investment (ROI):** Service organization helps IT organizations demonstrate their return on investment and measurable value to the business. This helps establish a business case for new or continuing investment in IT.
6. **Seamless sourcing partnerships:** Outsourcing, often with multiple service providers, is increasingly common today and service organization offers a common practice base for improved service chain management.

**There are numerous issues in service operation management:**

1. New service development
2. Managing service experiences
3. Front-office/Back-office
4. Analysing processes
5. Service quality
6. Yield management
7. Inventory management
8. Waiting time management

To summarize, business companies are continually involved to enhance their performances in order to compete actively in the market. Service industries manage and market their operations and services differently from manufacturing products. It is established that providing excellent and quality customer service is a crucial factor in an intrinsic capable market environment between the product and service industries. Service operations can be grouped into many industries, such as banking, hospitality. Most services industries which provide clients what they need and are satisfied. This helps the company to enhance its market share, and generate more profit. Service operations provide certain intangible services that may not be easily recognisable.

#### 4.2 SERVICE BLUEPRINTING

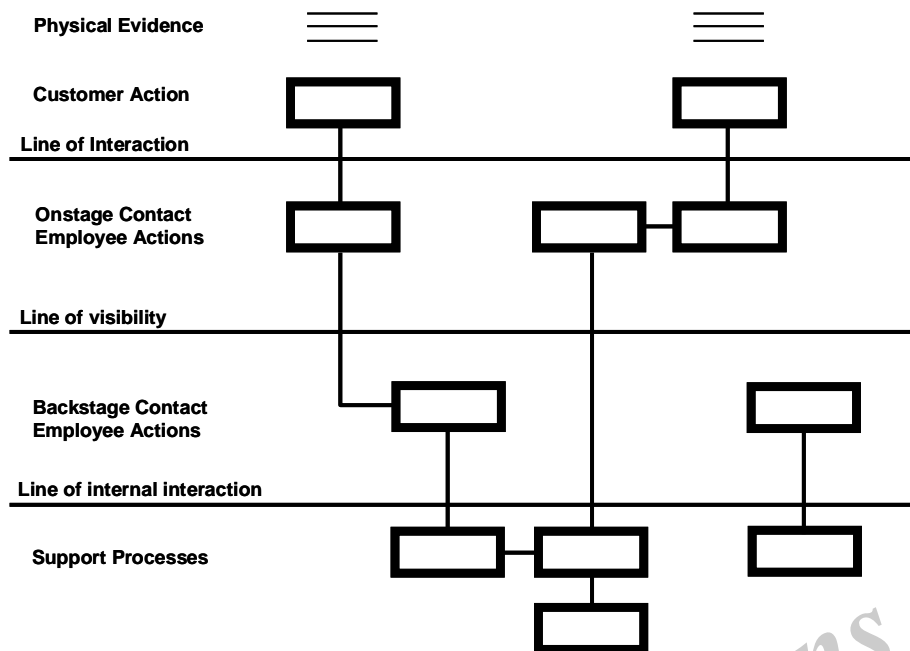
**Q2. Discuss about Service Blueprinting.**

*Ans :*

The service blueprint is a technique used for service innovation, but has also found applications in diagnosing problems with operational efficiency and can be used to conceptualise structural change (i.e. repositioning). The technique was first described by Lynn Shostack, a bank executive, in the Harvard Business Review in 1982. The blueprint shows processes within the company, divided into different components which are separated by lines.

Service blueprinting is a process analysis methodology proposed by Shostack. Shostack's methodical procedure draws upon time/motions method engineering, PERT/project programming and computer system and software design. The proposed blueprint allows for a quantitative description of critical service elements, such as time, logical sequences of actions and processes, also specifying both actions/events that happen in the time and place of the interaction (front office) and actions/events that are out of the line of visibility for the users, but are fundamental for the service.

Define service blueprinting as a tool for simultaneously depicting the service process, the points of customer contact, and the evidence of the service from the customer's point of view. With this description, the authors emphasize the different systemic layers overlapping in a service, from the layer of customer interaction and physical evidence to the layer of internal interaction within the service production process.



**Fig.: Layers of interaction in service blueprint**

Service blueprinting involves the description of all the activities for designing and managing services, including schedule, project plans, detailed representations and design plans, or service platforms.

Blueprinting is often supported by methodologies that elicit functional elements of services, as well as their qualitative/implicit characteristics, including TQM techniques, such as Quality Function Deployment, Just in Time, and capacity planning.

### Components of Service Blueprint

There are five components of a service blueprint. Our example shows a simple blueprint for a one-night stay in a hotel. They are :

#### 1. Customer actions

This include all the steps a customer takes during the service delivery process. In a Service Blueprint, customer actions are usually depicted in sequence, from start to finish. Customer actions are central to the Service Blueprint, so they are described first.

#### 2. The on stage visible actions taken by employees

Onstage visible actions by employees are the face-to-face contacts with the customer during the service delivery. These are separated from the customer by the line of interaction. Service delivery actions by frontline customer contact employees are shown here. Each time the line of interaction is crossed through an interaction between a customer and contact employee (or self service technology), a moment of truth occurs. During these moments of truth, customers judge your quality and make decisions regarding future purchases.

#### 3. Backstage actions taken by employees that are not visible to the customer

The next part of the Service Blueprint is the "backstage" invisible actions of employees that impact customers. Actions here are separated from onstage service delivery by the line of visibility. Everything above the line of visibility is seen by the customer while everything below it is invisible. In our hotel example, these actions included taking the food order (accurately) and preparing a quality meal.

#### 4. Company support processes used throughout the service delivery

The fourth critical component of a Service Blueprint is the “support processes” that customer contact employees rely on to effectively interact with the customer. These processes are all the activities contributed by employees within the company who typically don't contact customers. These need to happen, however, to deliver the service. Clearly, service quality is often impacted by these below-the-line of interaction activities.

#### 5. Physical evidence of the service

Finally, for each customer moment of truth the physical evidence of the service delivery at each point of customer contact is recorded at the top of the blueprint.

#### Service Blueprint Examples

Figures show service blueprints for two different services: express mail delivery and an overnight hotel stay. These blueprints are deliberately kept very simple, showing only the most basic steps in the services. Complex diagrams could be developed for each step, and the internal processes could be much more fully developed. In addition to the four action areas separated by the three horizontal lines, these blueprints also show the physical evidence of the service from the customer's point of view at each step of the process.

Examine the express mail delivery blueprint in Figure. It is clear that from the customer's point of view there are only three steps in the service process: the phone call, the package pickup, and the package delivery. The process is relatively standardized; the people who perform the service are the phone order-taker and the delivery person; and the physical evidence includes the document package, the transmittal forms, the truck, and the handheld computer.

In some cases the customer may also engage the online or phone-based package tracking system. Although critically important for the firm's success, the complex process that occurs behind the line of visibility is of little interest or concern to the customer. However, for the three visible-to-the-customer steps to proceed effectively, invisible internal services are needed. What these steps are and the fact that they support the delivery of the service to the external customer are apparent from the blueprint.

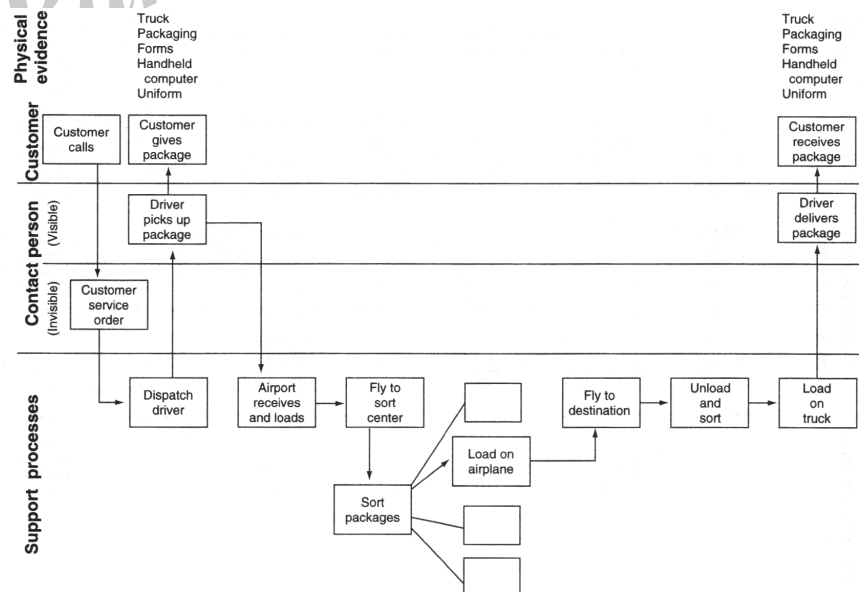


Fig.: Blueprint for Express Mail Delivery Service



Any of the steps in the blueprint could be exploded into a detailed blueprint if needed for a particular purpose. For example, if the delivery company learned that the “unload and sort” step was taking too long and causing unacceptable delays in delivery, that step could be blueprinted in much greater detail to isolate the problems.

In the case of the overnight hotel stay depicted in Figure, the customer obviously is more actively involved in the service than he or she is in the express mail service. The guest first checks in, then goes to the hotel room where a variety of steps take place (receiving bags, sleeping, showering, eating breakfast, and so on), and finally checks out. Imagine how much more complex this process could be and how many more interactions might occur if the service blueprint depicted a week-long vacation at the hotel, or even a three-day business conference.

The service blueprint also makes clear (by reading across the line of interaction) those employees with whom the guest interacts and thus those employees who provide evidence of the service to the customer. Several interactions occur with a variety of hotel employees, including the bell person, the front-desk clerk, the food service order-taker, and the food delivery person. Each step in the customer action area is also associated with various forms of physical evidence, from the hotel parking area and hotel exterior to the forms used at guest registration, the lobby, the room, and the food.

The hotel facility itself is critical in communicating the image of the hotel company, in providing satisfaction for the guest through the manner in which the hotel room is designed and maintained, and in facilitating the actions and interactions of both the guest and the employees of the hotel. In the hotel case, the process is relatively complex (although again somewhat standardized), the people providing the service are a variety of frontline employees, and the physical evidence includes everything from the guest registration form to the design of the lobby and room to the uniforms worn by frontline employees.

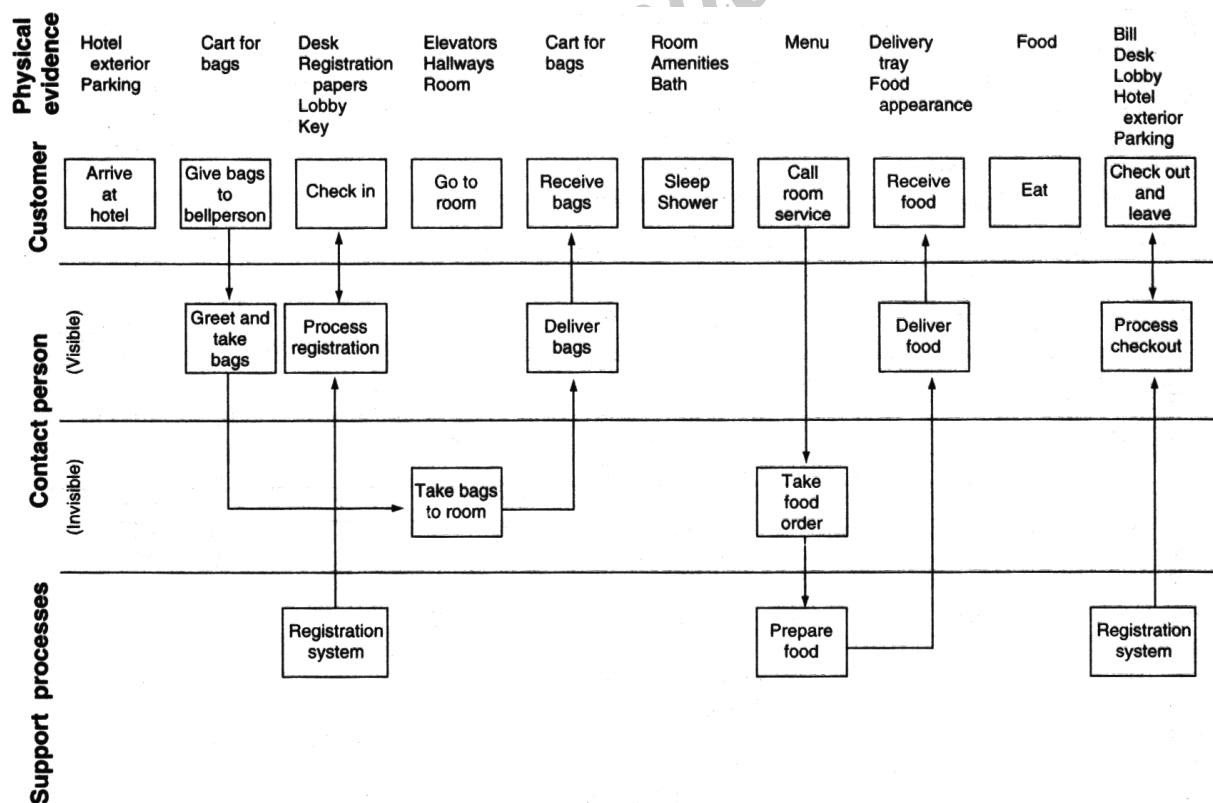


Fig.: Blueprint for Overnight Hotel Stay Service

**A) Blueprints for Technology-Delivered Self-Service**

To this point all our discussion of service blueprints has related to services that are delivered in person, services in which employees interact directly with customers at some point in the process. But what about technology-delivered services like self-service websites (Expedia's travel information site, Cisco Systems customer self-service site) and interactive kiosks (ATMs, airline self-check-in machines)? Can service blueprinting be used effectively to design these types of services? Certainly it can, but the lines of demarcation will change, and some blueprint labels may need to be adapted.

If no employees are involved in the service (except when there is a problem or the service does not function as planned), the contact person areas of the blueprint are not needed. Instead, the area above the line of visibility can be used to illustrate the interface between the customer and the computer website or the physical interaction with the kiosk. This area can be relabeled onstage/visible technology. The backstage contact person actions area would be irrelevant in this case.

If the service involves a combination of human and technology interfaces, as with airline computerized check-in, the onstage area can be cut into two distinct spaces divided by an additional horizontal line.

In the airline computerized check-in example, the human contact with the airline employee who takes the bags and checks identification would be shown in one area and the technology interactions with the check-in computer kiosk would be shown in the second area, both above the line of visibility.

**B) Reading and Using Service Blueprints**

A service blueprint can be read in a variety of ways, depending on the purpose. If the purpose is to understand the customer's view of the process or the customer experience, the blueprint can be read from left to right, tracking the events in the customer action area. Questions that might be asked include these: How is the service initiated by the customer? What choices does the customer make? Is the customer highly involved in creating the service, or are few actions required of the customer? What is the physical evidence of the service from

the customer's point of view? Is the evidence consistent with the organization's strategy and positioning?

If the purpose is to understand contact employees' roles, the blueprint can also be read horizontally but this time focusing on the activities directly above and below the line of visibility. Questions that might be asked include these: How rational, efficient, and effective is the process? Who interacts with customers, when, and how often? Is one person responsible for the customer, or is the customer passed off from one contact employee to another?

If the purpose is to understand the integration of the various elements of the service process, or to identify where particular employees fit into the bigger picture, the blueprint can be analyzed vertically. In this analysis, it becomes clear what tasks and which employees are essential in the delivery of service to the customer. The linkages from internal actions deep within the organization to frontline effects on the customer can also be seen in the blueprint.

If the purpose is set-ice redesign, the blueprint can be looked at as a whole to assess the complexity of the process, how it might be changed, and how changes from the customer's point of view would affect the contact employee and other internal processes, and vice versa. Blueprints can also be used to assess the overall efficiency and productivity of the service system and to evaluate how potential changes will affect the system. The blueprint can also be analyzed to determine likely failure points or bottlenecks in the process. When such points are discovered, a firm can introduce measures to track failures, or that part of the blueprint can be exploded so that the firm can focus in much greater detail on that piece of the system.

Blueprinting applications in a variety of contexts have demonstrated benefits and uses, including :

- Providing a platform for innovation.
- Recognizing roles and interdependences among functions, people, and organizations.
- Facilitating both strategic and tactical innovations.

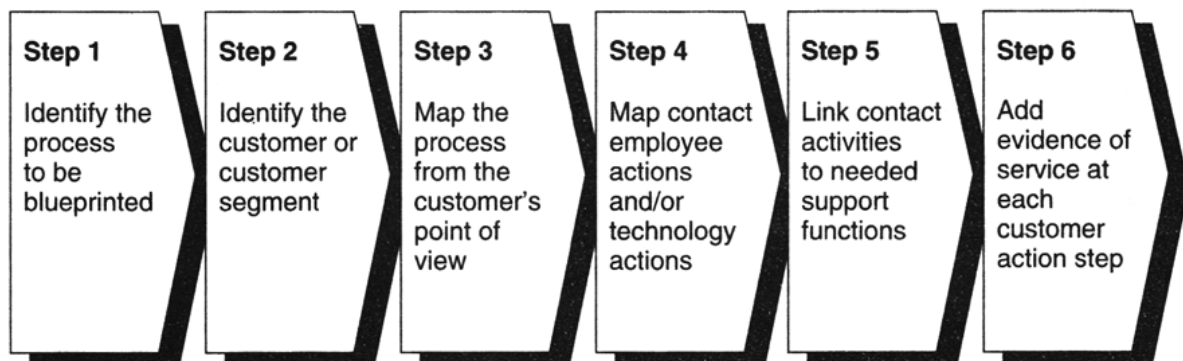
- Transferring and storing innovation and service knowledge.
- Designing moments of truth from the customer's point of view.
- Suggesting critical points for measurement and feedback in the service process.
- Clarifying competitive positioning.
- Understanding the ideal customer experience.

Clearly, one of the greatest benefits of blueprinting is education. When people begin to develop a blueprint, it quickly becomes apparent what is actually known about the service. Sometimes the shared knowledge is minimal. Biases and prejudices are made explicit, and agreements and compromises must be reached. The process itself promotes cross-functional integration and understanding. In the attempt to visualize the entire service system, people are forced to consider the service in new and more comprehensive ways.

### Q3. How to Building a Blueprint in services?

*Ans :*

Recall that many of the benefits and purposes of building a blueprint evolve from the process of doing it. Thus, the final product is not necessarily the only goal. Through the process of developing the blueprint, many intermediate goals can be achieved: clarification of the concept, development of a shared service vision, recognition of complexities and intricacies of the service that are not initially apparent, and delineation of roles and responsibilities, to name a few. The development of the blueprint needs to involve a variety of functional representatives as well as information from customers. Drawing or building a blueprint is not a task that should be assigned to one person or one functional area. Figure identifies the basic steps in building a blueprint.



**Fig.: Building a Service Blueprint**

#### **Step 1 : Identify the Service Process to Be Blueprinted**

Blueprints can be developed at a variety of levels, and there needs to be agreement on the starting point. For example, the express mail delivery blueprint shown in Figure 9.5 is at the basic service concept level. Little detail is shown, and variations based on market segment or specific services are not shown. Specific blueprints could be developed for two-day express mail, large accounts, Internet-facilitated services, and/or storefront drop-off centers. Each of these blueprints would share some features with the concept blueprint but would also include unique features. Or if the "sort packages" and "loading" elements of the process were found to be problem areas or bottlenecks that were slowing service to customers, a detailed blueprint of the subprocesses at work in those two steps could be developed. A firm can identify the process to be mapped once it has determined the underlying purpose for building the blueprint.

**Step 2 : Identify the Customer or Customer Segment Experiencing the Service**

A common rationale for market segmentation is that each segment's needs are different and therefore will require variations in the service or product features. Thus, blueprints are most useful when developed for a particular customer or customer segment, assuming that the service process varies across segments. At a very abstract or conceptual level it may be possible to combine customer segments on one blueprint.

**Step 3 : Map the Service Process from the Customer's Point of View**

Step 3 involves charting the choices and actions that the customer performs or experiences in purchasing, consuming, and evaluating the service. Identifying the service from the customer's point of view first will help avoid focusing on processes and steps that have no customer impact. This step forces agreement on who the customer is (sometimes no small task) and may involve considerable research and observation to determine exactly how the customer experiences the service. Sometimes the beginning and ending of the service from the customer's point of view may not be obvious.

**Step 4 : Map Contact Employee Actions and/or Technology Actions**

First the lines of interaction and visibility are drawn, and then the process from the customer contact person's point of view is mapped, distinguishing visible or onstage activities from invisible backstage activities. For existing services, this step involves questioning or observing frontline operations employees to learn what they do and which activities are performed in full view of the customer versus which activities are carried out behind the scenes.

For technology-delivered services or those that combine technology and human delivery, the required actions of the technology interface will be mapped above the line of visibility as well. If no employees are involved in the service, the area can be relabeled "onstage technology actions." If both human and technology interactions are involved, an additional horizontal line can separate "visible

contact employee actions" from "visible technology actions." Using the additional line will facilitate reading and interpretation of the service blueprint.

**Step 5: Link Contact Activities to Needed Support Functions**

The line of internal interaction can then be drawn and linkages from contact activities to internal support functions can be identified. In this process, the direct and indirect impact of internal actions on customers becomes apparent. Internal service processes take on added importance when viewed in connection with their link to the customer. Alternatively, certain steps in the process may be viewed as unnecessary if there is no clear link to the customer's experience or to an essential internal support service.

**Step 6 : Add Evidence of Service at Each Customer Action Step**

Finally, the evidence of service can be added to the blueprint to illustrate what the customer sees and receives as tangible evidence of the service at each step in the customer experience. A photographic blueprint, including photos, slides, or video of the process, can be very useful at this stage to aid in analyzing the impact of tangible evidence and its consistency with the overall strategy and service positioning.

**Advantages of Blue Printing****1. Provides an Overview**

The employees can relate 'what I do' to the service viewed as an integrated whole, thus, reinforcing a customer-oriented focus among employees.

**2. Identifies Fail Points**

Identifies fail points, i.e., weak points of the chain of service activities. These points can be the target of the continuous quality improvement.

**3. Improved Service Design**

Line of interaction between internal customers and employees illuminates the customer's role and demonstrates where the customer experiences quality, thus contributing to informed service design.

**4. Rational Service Design**

Line of visibility promotes a conscious decision on what customers should see and which employee will be in contact with the customer, thus facilitating rational service design.

**5. Continuous Quality Improvement**

Line of internal interaction clarifies interfaces across departmental lines, with their inherent interdependencies thus strengthening continuous quality improvements.

**6. Provides Integrated View of Service**

It provides simultaneous strategic discussions by illuminating the elements and connections that constitute the service. Those who participate in strategic sessions tend to exaggerate the significance of their own special function and perspective unless a common ground for an integrated view of service is provided.

**7. Identifies Resources**

Provides a basis for identifying and assessing cost, revenue and capital invested in each element of the service.

**8. Constitutes a Rational Basis for both External and Internal Marketing**

It constitutes a rational basis for both external and internal marketing. For example, the service map makes it easier for an advertising agency or an in-house promotion team to overview a service and select essential messages for communication.

**9. Facilitates Top-down Bottom-up Approach to Quality Improvement**

It enables managers to identify channel and support quality improvements efforts of gross root employees working both front line and support teams. Employee work teams can create service maps and thus more clearly apply and communicate their experience and suggestions for improvement.

**4.3 MANAGING DEMAND AND SUPPLY**

**Q4. Write about key success factors for service organization.**

*Ans :*

**(May-19)**

We focus on the challenges of matching supply and demand in capacity-constrained services. The service performance gap can occur when organizations fail to smooth the peaks and valleys of demand, overuse their capacities, attract an inappropriate customer mix in their efforts to build demand, or rely too much on price in smoothing demand. The effective use of capacity is frequently a key success factor for service organizations.

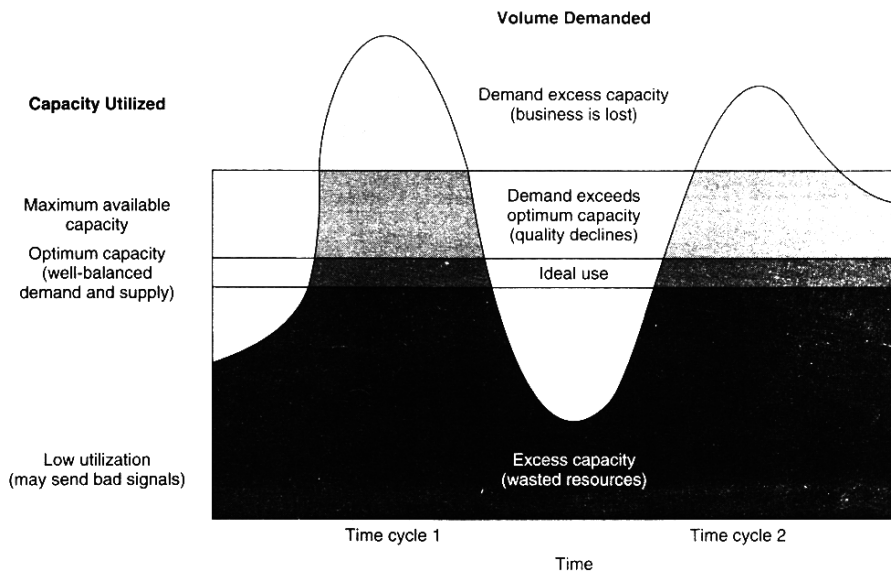
**A) The Underlying Issue : Lack of Inventory Capability**

The fundamental issue underlying supply and demand management in services is the lack of inventory capability. Unlike manufacturing firms, service firms cannot build up inventories during periods of slow demand to use later when demand increases. This lack of inventory capability is due to the perishability of services and their simultaneous production and consumption.

An airline seat not sold on a given flight cannot be left in inventory and resold the following day. The productive capacity of that seat on that flight has perished. Similarly, an hour of a lawyer's billable

time cannot be saved from one day to the next. Services also cannot be transported from one place to another or transferred from person to person. Thus the Phoenix Ritz-Carlton's services cannot be moved to an alternative location in the summer months—say, to the Pacific Coast where summers are ideal for tourists and demand for hotel rooms is high.

The lack of inventory capability combined with fluctuating demand leads to a variety of potential outcomes, as illustrated in Figure below.



**Fig.: Variations in Demand Relative to Capacity**

The horizontal lines in Figure indicate service capacity, and the curved line indicates customer demand for the service. In many services, capacity is fixed; thus capacity can be designated by a flat horizontal line over a certain time period. Demand for service frequently fluctuates, however, as indicated by the curved line. The topmost horizontal line in Figure represents maximum capacity.

For example, in our opening vignette, the horizontal line would represent the Phoenix Ritz-Carlton's 281 rooms, or it could represent 70,000 seats in a large university football stadium. The rooms and the seats remain constant, but demand for them fluctuates. The band between the second and third horizontal lines represents optimum capacity—the best use of the capacity from the perspective of both customers and the company (the difference between optimal and maximum capacity utilization is discussed later in the chapter). The areas in the middle of Figure are labeled to represent four basic scenarios that can result from different combinations of capacity and demand:

1. **Excess demand:** The level of demand exceeds maximum capacity. In this situation some customers will be turned away, resulting in lost business opportunities. For the customers who do receive the service, its quality may not match what was promised because of crowding or overtaxing of staff and facilities.
2. **Demand exceeds optimum capacity:** No one is being turned away, but the quality of service may still suffer because of overuse, crowding, or staff being pushed beyond their abilities to deliver consistent quality.
3. Demand and supply are balanced at the level of optimum capacity. Staff and facilities are occupied at an ideal level. No one is overworked, facilities can be maintained, and customers are receiving quality service without undesirable delays.

4. **Excess capacity:** Demand is below optimum capacity. Productive resources in the form of labor, equipment, and facilities are underutilized, resulting in lost productivity and lower profits. Customers may receive excellent quality on an individual level because they have the full use of the facilities, no waiting, and complete attention from the staff. If, however, service quality depends on the presence of other customers, customers may be disappointed or may worry that they have chosen an inferior service provider.

### B) Capacity Constraints

For many firms, service capacity is fixed. As indicated in Table below, critical fixed-capacity factors can be—depending on the type of service—time, labor, equipment, facilities, or (in many cases) a combination of these.

Nature of the Constraint	Type of Service*
Time	Legal Consulting Accounting Medical
Labor	Law firm Accounting firm Consulting firm Health clinic
Equipment	Delivery services Telecommunications Network services Utilities Health club
Facilities	Hotels Restaurants Hospitals Airlines Schools Theaters Churches

**Table : Constraints on Capacity**

#### Time, Labor, Equipment, Facilities

For some service businesses, the primary constraint on service production is time. For example, a lawyer, a consultant, a hairdresser, a plumber, and a psychological counselor all primarily sell their time. In such contexts, if the service worker is not available or if her or his time is not used productively, profits are lost. If there is excess demand, additional time cannot be created to satisfy it. From the point of view of the individual service provider, time is the constraint.

From the point of view of a firm that employs a large number of service providers, labor or staffing levels can be the primary capacity constraint. A law firm, a university department, a consulting firm, a tax accounting firm, and a repair and maintenance contractor may all face the reality that at certain times demand for their organizations' services cannot be met because the staff is already operating at peak capacity. However, it does not always make sense (nor may it be possible in a competitive labor market) to hire additional service providers if low demand is a reality a large percentage of the time.

In other cases, equipment may be the critical constraint. For trucking or air-freight delivery services, the trucks or airplanes needed to service demand may be the capacity limitation. During the Christmas holidays, UPS, FedEx, and other delivery service providers face this issue. Health clubs also deal with this limitation, particularly at certain times of the day (before work, during lunch hours, after work) and in certain months of the year. For network service providers, bandwidth, servers, and switches represent their capacity constraints.

Finally, many firms face restrictions brought about by their limited facilities. Hotels have only a certain number of rooms to sell, airlines are limited by the number of seats on their aircraft, educational institutions are constrained by the number of rooms and the number of seats in each classroom, and restaurant capacity is restricted to the number of tables and seats available.

Understanding the primary capacity constraint, or the combination of factors that restricts capacity, is a first step in designing strategies to deal with supply and demand issues.

### **C) Optimal versus Maximum Use of Capacity**

To fully understand capacity issues, it is important to know the difference between optimal and maximum use of capacity. As suggested in figure, optimum and maximum capacity may not be the same. Using capacity at an optimum level means that resources are fully employed but not overused and that customers are receiving quality service in a timely manner. Maximum capacity, on the other hand, represents the absolute limit of service availability.

In the case of a sporting event, optimum and maximum capacity may be the same. The entertainment value of the game is enhanced for customers when every single seat is filled, and obviously the profitability for the home team is greatest under these circumstances (see accompanying photo). On the other hand, in a university classroom it is usually not desirable for students or faculty to have every seat filled. In this case, optimal use of capacity is less than the

maximum. In some cases, maximum use of capacity may result in excessive waiting by customers, as in a popular restaurant. From the perspective of customer satisfaction, optimum use of the restaurant's capacity will again be less than maximum use.

In the case of equipment or facilities constraints, the maximum capacity at any given time is obvious. There are only a certain number of weight machines in the health club, a certain number of seats in the airplane, and a limited amount of space in a cargo carrier. In the case of a bottling plant, when maximum capacity on the assembly line is exceeded, bottles begin to break and the system shuts down. Thus, it is relatively easy to observe the effects of exceeding maximum equipment capacity.

When the limitation is people's time or labor, maximum capacity is harder to specify because people are in a sense more flexible than facilities and equipment. When an individual service provider's maximum capacity has been exceeded, the result is likely to cause decreased service quality, customer dissatisfaction, and employee burnout and turnover, but these outcomes may not be immediately observable even to the employee. While it is relatively easy for firms to identify the maximum capacity for physical constraints like space, it is much more difficult to know what the maximum capacity of a human being is.

As a result firms may be able to push employees beyond their optimum capacity for a while, but not learn of the maximum capacity of an employee until the person quits or encounters health problems. Indeed, it is often easy for a consulting firm to take on one more assignment, taxing its employees beyond their maximum capacity, or for an HMO clinic to schedule a few more appointments in a day, stretching its staff and physicians beyond their maximum capacity. Given the potential costs in terms of reduced quality and customer and employee dissatisfaction, it is critical for the firm to understand optimum and maximum human capacity limits.



### 4.3.1 Demand Patterns

#### Q5. Explain about Demand Patterns.

*Ans :*

To manage fluctuating demand in a service business, it is necessary to have a clear understanding of demand patterns, why they vary, and the market segments that comprise demand at different points in time. A number of questions need to be answered regarding the predictability and underlying causes of demand.

#### 1. The Charting of Demand Patterns

To begin to understand demand patterns, the organization needs to chart the level of demand over relevant time periods. Organizations that have good customer information systems can chart this information very accurately. Others may need to chart demand patterns more informally. Daily, weekly, and monthly demand levels should be tracked, and if seasonality is a suspected problem, graphing should be done for data from at least the past year.

In some services, such as restaurants or health care, hourly fluctuations within a day may also be relevant. Sometimes demand patterns are intuitively obvious; in other cases, patterns may not reveal themselves until the data are tracked.

#### 2. Predictable Cycles

In looking at the graphic representation of demand levels, predictable cycles may be detected, including daily (variations occur by hours), weekly (variations occur by day), monthly (variations occur by day or week), and/or yearly (variations occur according to months or seasons).

In some cases, predictable patterns may occur at all periods. For example, in the restaurant industry, especially in seasonal tourist locations, demand can vary predictably by month, by week, by day, and by hour. Similarly, the demand for a bank's services

can vary by hour (with lunch time and end of the day with the most demand), by day of the week (with the last day of the week and the first day of the week being the most popular), and by day of the month.

#### 3. Random Demand Fluctuations

Sometimes the patterns of demand appear to be random—there is no apparent predictable cycle. Yet even in this case, causes can often be identified. For example, day-to-day changes in the weather may affect use of recreational, shopping, or entertainment facilities. Good weather generally increases the demand for the services provided by an amusement park, but it has the opposite effect on movie theaters—people would rather not be inside when the weather is nice.

Auto service centers generally find extremely poor weather (either very hot or very cold) increases the demand for their services, whereas mild weather does not seem to have as much of an effect on vehicles. Although the weather cannot be predicted far in advance, it may be possible to anticipate demand a day or two ahead. Health-related events also cannot be predicted. Accidents, heart attacks, and births all increase demand for hospital services, but the level of demand cannot generally be determined in advance. Natural disasters such as floods, fires, and hurricanes can dramatically increase the need for such services as insurance, telecommunications, and health care. Acts of war and terrorism such as that experienced in the United States on September 11, 2001, generate instantaneous need for services that cannot be predicted.

#### 4. Demand Patterns by Market Segment

An organization that has detailed records on customer transactions may be able to disaggregate demand by market segment, revealing patterns within patterns. Or the analysis may reveal that demand from one segment is predictable, whereas demand from another segment is relatively random.

### 4.3.2 Strategies for Matching Capacity and Demand

#### Q6. What are the Strategies for Matching Capacity and Demand?

*Ans :*

(Dec.-19)

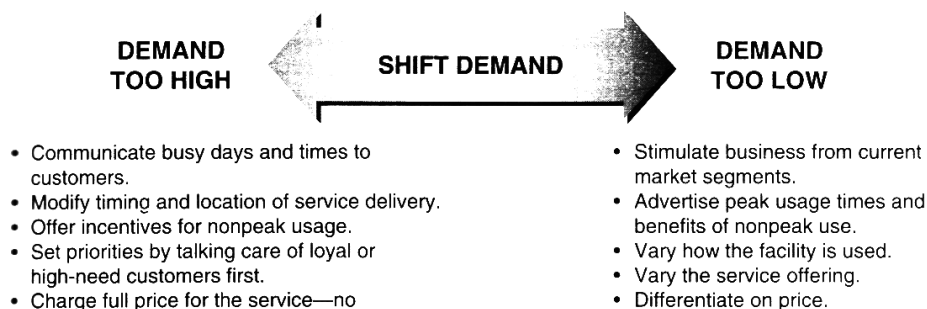
When an organization has a clear grasp of its capacity constraints and an understanding of demand patterns, it is in a good position to develop strategies for matching supply and demand. There are two general approaches for accomplishing this match. The first is to smooth the demand fluctuations themselves by shifting demand to match existing capacity. This approach implies that the peaks and valleys of the demand curve will be flattened to match as closely as possible the horizontal optimum capacity line. The second general strategy is to adjust capacity to match fluctuations in demand. This implies moving the horizontal capacity lines to match the ups and downs of the demand curve. Each of these two basic strategies is described next with specific examples.

#### A) Shifting Demand to Match Capacity

With this strategy an organization seeks to shift customers away from periods in which demand exceeds capacity, perhaps by convincing them to use the service during periods of slow demand. This change may be possible for some customers but not for others.

For example, many business travelers are not able to shift their needs for airline, car rental, and hotel services; pleasure travelers, on the other hand, can often shift the timing of their trips. Customers who cannot shift their demand and cannot be accommodated because of insufficient capacity will represent lost business for the firm.

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



**Fig.: Strategies for Shifting Demand to Match Capacity**

**A) Reduce Demand during Peak Times.** One strategic approach to matching capacity and demand for a service provider focuses on reducing demand during times when customer demand is at its peak for the service.

- 1. Communicate with Customers.** One approach for shifting demand is to communicate with customers, letting them know the times of peak demand so they can choose to use the service at alternative times and avoid crowding or delays. For example, signs in banks and post offices that let customers know their busiest hours and busiest days of the week can serve as a warning, allowing customers to shift their demand to another time if possible.

Forewarning customers about busy times and possible waits can have added benefits. Many customer service telephone lines provide a similar warning by informing waiting customers about approximately how long it will be until they are served. Those who do not want to wait may choose to call back later when the customer service department is less busy or to visit the company's website for faster service.

2. **Modify Timing and Location of Service Delivery.** Some firms adjust their hours and days of service delivery to more directly reflect customer demand. Historically, U.S. banks were open only during "bankers' hours" from 10 a.m. to 3 p.m. every weekday—creating a heavy demand for their services during those hours. However, these hours did not necessarily match the times when most people preferred to do their personal banking.
3. **Offer Incentives for Nonpeak Usage.** In an attempt to shift demand away from peak times, some firms will offer incentives to encourage customers to shift their use of the service to other times. In northern Midwest states, swimming pool contractors offer additional amenities (e.g., free diving board, free heater, larger size pool) to customers who are willing to postpone the purchase/use of their services until the end of the swimming season (say September or October). Fitness centers who offer Pilates classes during times of lower demand often tout the advantages of smaller classes and increased instructor interaction with clients and frequently extend the class time by 25 percent or more.
4. **Set Priorities.** When demand for the service is high and there is limited capacity, service providers can prioritize who is served by taking care of loyal or high-need customers first. A tax firm

might decide to serve its best customers rather than first-time walk-ins just prior to income tax due dates, and emergency centers move the most severe cases to the top of the priority list.

5. **Charge Full Price.** Firms generally charge full price for service during those periods of time that they know their services are historically in high demand; no discounts are allowed during such times. One of the busiest periods of the year for airlines are those days just before and just after the Thanksgiving holiday; for this reason, most airlines give priority for seating to those paying full fares and prohibit the use of frequent flyer miles for free seats. Because demand is so high, customers looking for discounted or free tickets find that the days around this holiday have been "blackout"; to travel, they must purchase tickets at regular fares.

**B) Increase Demand to Match Capacity.** Other approaches service providers may consider in matching capacity and demand focus on increasing demand for service during times when the service is at less than full capacity.

1. **Stimulate Business from Current Market Segments.** Advertising and other forms of promotion can emphasize different service benefits to customers during peak and slow periods. Advertising and sales messages can remind customers about times when demand is low. For example, automobile service centers increase their service advertising during periods when demand is slow by sending out reminders and discounts for oil changes. Similarly, tourist attractions often advertise more to the local market during off-peak times.
2. **Vary How the Facility Is Used.** One approach is to change how the service facility is used, depending on the season of the year, day of the week, or time of

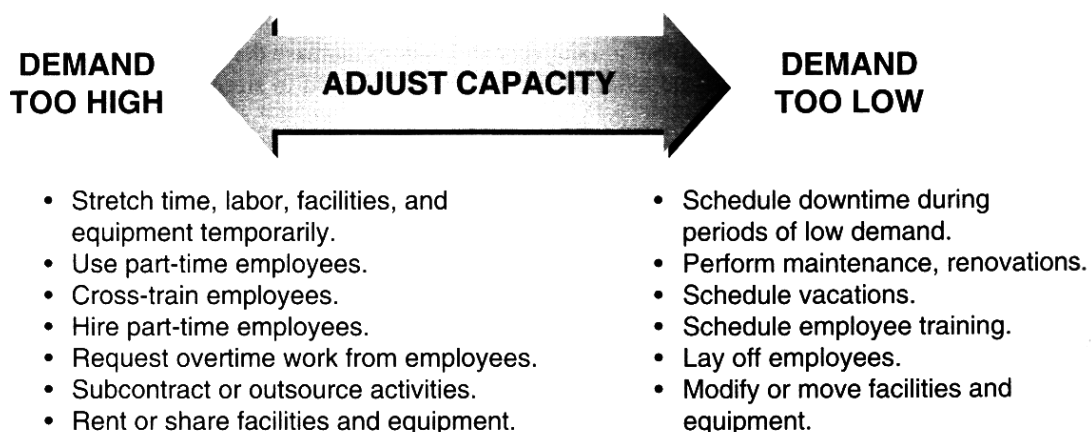
day. For example, Whistler Mountain, a ski resort in Vancouver, Canada, offers its facilities for executive development and training programs during the summer when snow skiing is not possible.

3. **Vary the Service Offering.** A similar approach entails changing the nature of the service offering. Accounting firms, for example, focus on tax preparation late in the year and until April 15, when federal taxes are due in the United States. During other times of the year, they can focus on audits and general tax consulting activities. During professional basketball games, the demand for food at concession stands increases dramatically during the breaks between quarters—so much so that many customers decide not to make purchases for fear they will miss seeing the game because of long lines.
4. **Differentiate on Price.** A common response during periods of slow demand is to discount the price of the service. This strategy relies on basic economics of supply and demand. To be effective, however, a price differentiation strategy depends on solid understanding of customer price sensitivity and demand curves.

#### B) Adjusting Capacity to Meet Demand

A second strategic approach to matching supply and demand focuses on adjusting capacity. The fundamental idea here is to adjust, stretch, and align capacity to match customer demand (rather than working on shifting demand to match capacity, as just described). During periods of peak demand the organization seeks to stretch or expand its capacity as much as possible.

During periods of slow demand it tries to shrink capacity so as not to waste resources. General strategies for adjusting the four primary service resources (time, people, equipment, and facilities) are discussed throughout the rest of this section. In Figure, we summarize specific ideas for adjusting capacity during periods of peak and slow demand. Often, a number of different strategies are used simultaneously.



**Fig.: Strategies for Adjusting Capacity to Match Demand**

#### A) Stretch Existing Capacity

Existing capacity can often be expanded temporarily to match demand. In such cases, no new resources are added; rather, the people, facilities, and equipment are asked to work harder and longer to meet demand.

1. **Stretch Time Temporarily.** It may be possible to extend the hours of service temporarily to accommodate demand. A health clinic might stay open longer during flu season, retailers are open longer hours during the holiday shopping season, and accountants have extended appointment hours (evenings and Saturdays) in the weeks just before tax deadlines.
  2. **Stretch Labor Temporarily.** In many service organizations, employees are asked to work longer and harder during periods of peak demand. For example, consulting organizations face extensive peaks and valleys with respect to demand for their services. During peak demand, associates are asked to take on additional projects and work longer hours. And frontline service personnel in banks, tourist attractions, restaurants, and telecommunications companies are asked to serve more customers per hour during busy times than during "normal" hours or days.
  3. **Stretch Facilities Temporarily.** Theaters, restaurants, meeting facilities, and classrooms can sometimes be expanded temporarily by the addition of tables, chairs, or other equipment needed by customers. Or, as in the case of a commuter train, a car that holds a fixed number of people seated comfortably can "expand" by accommodating standing passengers.
  4. **Stretch Equipment Temporarily.** Computers, power lines, tour buses, and maintenance equipment can often be stretched beyond what would be considered the maximum capacity for short periods to accommodate peak demand.
- B) Align Capacity with Demand Fluctuations.** This basic strategy is sometimes known as a "chase demand" strategy. By adjusting service resources creatively, organizations can, in effect, chase the demand curves to match capacity with customer demand patterns. Time, labor, facilities, and equipment are again the focus, this time with an eye toward adjusting the basic mix and use of these resources. Specific actions might include the following.
1. **Use Part-Time Employees.** In this situation the organization's labor resource is being aligned with demand. Retailers hire part-time employees during the holiday rush; tax accountants engage temporary help during tax season; tourist resorts bring in extra workers during peak season. Restaurants often ask employees to work split shifts (work the lunch shift, leave for a few hours, and come back for the dinner rush) during peak mealtime hours.
  2. **Outsource.** Firms that find they have a temporary peak in demand for internal services may choose to outsource the service. For example, in recent years, many firms have found they do not have the capacity to fulfill their own needs for technology support, web design, and software-related services. Rather than try to hire and train additional employees, these companies look to firms that specialize in outsourcing these types of functions as a temporary (or sometimes long-term) solution.
  3. **Rent or Share Facilities or Equipment.** For some organizations it is best to rent additional equipment or facilities during periods of peak demand. For example, express mail delivery services rent or lease trucks during the peak holiday delivery season. It would not make sense to buy trucks that would sit idle during the rest of the year. Sometimes organizations with complementary demand patterns can share facilities.

4. **Schedule Downtime during Periods of Low Demand.** If people, equipment, and facilities are being used at maximum capacity during peak periods, then it is imperative to schedule repair, maintenance, and renovations during off-peak periods. Online banking services, for example, often schedule software upgrades on early Sunday morning (4:00 to 6:00 a.m.) to keep those affected by the disruption of their service to a minimum. Such scheduling attempts to ensure that a provider's resources are in top condition when they are most needed. Vacations and training are also scheduled during slow demand periods.
5. **Cross-Train Employees.** If employees are cross-trained, they can shift among tasks, filling in where they are most needed. Cross-training increases the efficiency of the whole system and avoids underutilizing employees in some areas while others are being overtaxed. Many airlines cross-train their employees to move from ticketing to working the gate counter to assisting with baggage if needed. In some fast-food restaurants, employees specialize in one task (like making french fries) during busy hours, and the team of specialists may number 10 people. During slow hours the team may shrink to three, with each of the remaining persons performing a variety of other functions. Grocery stores also use this strategy, with most employees able to move as needed from cashiering to stocking shelves to bagging groceries.
6. **Modify or Move Facilities and Equipment.** Sometimes it is possible to adjust, move, or creatively modify existing capacity to meet demand fluctuations. Hotels utilize this strategy by reconfiguring rooms—two rooms with a locked door between can be rented to two different parties in high demand times or turned into a suite

during slow demand. The airline industry offers another example of this strategy. Using an approach known as "demand-driven dispatch," airlines often assign airplanes to flight schedules on the basis of fluctuating market needs.

- C) **Combining Demand and Capacity Strategies.** Many firms use multiple strategies, combining marketing-driven demand management approaches with operations-driven capacity management strategies. Figuring out which is the best set of strategies for maximizing capacity utilization, customer satisfaction, and profitability can be challenging, particularly when the service represents a constellation of offerings within one service setting.

Examples of such services include theme parks with rides, restaurants, and shopping; hotel vacation villages with hotels, shopping, spas, pools, and restaurants; or ski resorts with ski slopes, spas, restaurants, and entertainment. Firms face complex problems in trying to balance demand across all the different offerings with an eye to quality and profitability. Our Strategy Insight describes a ski resort simulation that was created to use operations and marketing variables to determine the optimal combination of demand and capacity management strategies across the resort's various offerings and activities.

#### Q7. Explain about yield management.

*Ans :*

Yield management is a term that has become attached to a variety of methods, some very sophisticated, employed to match demand and supply in capacity-constrained services. Using yield management models, organizations find the best balance at a particular point in time among the prices charged, the segments sold to, and the capacity used.

The goal of yield management is to produce the best possible financial return from a limited available capacity. Specifically, yield management—also referred to as revenue management—attempts

to allocate the fixed capacity of a service provider (e.g., seats on a flight, rooms in a hotel, rental cars) to match the potential demand in various market segments (e.g., business traveler, tourist) so as to maximize revenue or yield.

Although the implementation of yield management can involve complex mathematical models and computer programs, the underlying effectiveness measure is the ratio of actual revenue to potential revenue for a particular measurement period:

$$\text{Yield} = \frac{\text{Actual revenue}}{\text{Potential revenue}}$$

where

Actual revenue = Actual capacity used  $\times$  Average actual price

Potential revenue = Total capacity  $\times$  Maximum price

The equations indicate that yield is a function of price and capacity used. Recall that capacity constraint? can be in the form of time, labor, equipment, or facilities. Yield is essentially a measure of the extent to which an organization's resources (or capacities) are achieving their full revenue-generating potential. Assuming that total capacity and maximum price cannot be changed, yield approaches a value of 1 as actual capacity utilization increases or when a higher actual price can be charged for a given capacity used.

For example, in an airline context, a manager could focus on increasing yield by finding ways to bring in more passengers to fill the capacity or by finding higher-paying passengers to fill a more limited capacity. In reality, expert yield managers work on capacity and pricing issues simultaneously to maximize revenue across different customer segments. Exhibit shows simple yield calculation- and the inherent trade-offs for two types of services: hotel and legal.

### Implementing a Yield Management System

Our Technology Spotlight illustrates several examples of how information technology supports effective yield management applications. To implement a yield management system, an organization needs detailed data on past demand patterns by market segment as well as methods of projecting current market demand. The data can be combined through mathematical programming models, threshold analysis, or use of expert systems to project the best allocation of limited capacity at a particular point in time.

Allocations of capacity for specific market segments can then be communicated to sales representatives or reservations staff as targets for selling rooms, seats, time, or other limited resources. Sometimes the allocations, once determined, remain fixed. At other times allocations change weekly, or even daily or hourly, in response to new information.

Research indicates that traditional yield management approaches are most appropriate for service firms when :

1. They have relatively fixed capacity.
2. They have perishable inventory.
3. They have different market segments or customers, who arrive or make their reservations at different times.
4. They have low marginal sales costs and high marginal capacity change costs.
5. The product is sold in advance.
6. There is fluctuating demand.
7. Customers who arrive or reserve early are more price sensitive than those who arrive or reserve late.

When these conditions are present, yield management approaches can generally be employed to identify the best mix of service offerings to produce and sell in the period, and at what prices, to generate the highest expected revenue. These criteria exactly fit the situation for airlines, car rental agencies, and many hotels—industries that have effectively and extensively used yield management techniques to allocate capacity. In other services (entertainment, sports, fashion), those customers willing to pay the higher prices are the ones who buy early rather than late. People who really want to see a particular performance reserve their seats at the earliest possible moment. Discounting for early purchases would reduce profits. In these situations, the price generally starts out high and is reduced later to fill capacity if needed.

Interestingly, some airlines now use both these strategies effectively. They start with discounted seats for customers who are willing to buy early, usually leisure and discretionary travelers. They charge a higher fare for those who want a seat at the last minute, typically the less-price-sensitive business travelers whose destinations and schedules are inflexible. However, in some cases a bargain fare can be found at the last minute as well, commonly via Internet sales, to fill seats that would otherwise go unoccupied. Online auctions and services offered by companies like Priceline.com serve a purpose in filling capacity at the last minute, often charging much lower fares.

### Challenges and Risks in Using Yield Management

Yield management programs can significantly improve revenues. However, although yield management may appear to be an ideal solution to the problem of matching supply and demand, it is not without risks. By becoming focused on maximizing financial returns through differential capacity allocation and pricing, an organization may encounter these problems :

**1. Loss of competitive focus.** Yield management may cause a firm to overfocus on profit maximization and inadvertently neglect aspects of the service that provide long-term competitive success.

- 2. Customer alienation.** If customers learn that they are paying a higher price for service than some-one else, they may perceive the pricing as unfair, particularly if they do not understand the reason? However, a study done in the restaurant industry found that when customers were informed of different prices being charged by time of day, week, or table location, they generally felt the practice was fair, particularly if the price difference was framed as a discount for less desirable times rather than a premium for peak times or table locations. Customer education is thus essential in an effective yield management program.
- 3. Overbooking.** Customers can be further alienated if they fall victim (and are not compensated adequately) to the overbooking practices often necessary to make yield management systems work effectively. Recent research suggests that customers who experience negative consequences of revenue management (i.e., denied service or downgrades), particularly high-value customers, subsequently reduce their number of transactions with the firm.
- 4. Employee morale problems.** Yield management systems take much guesswork and judgment in setting prices away from sales and reservations people. Although some employees may appreciate the guidance, others may resent the rules and restrictions on their own discretion.
- 5. Incompatible incentive and reward systems.** Employees may resent yield management systems that do not match incentive structures. For example, many managers are rewarded on the basis of capacity utilization or average rate charged, whereas yield management balances the two factors.
- 6. Lack of employee training.** Extensive training is required to make a yield management system work. Employees need to understand its purpose, how it works, how they should make decisions, and how the system will affect their jobs.



7. **Inappropriate organization of the yield management function.** To be most effective with yield management, an organization must have centralized reservations. Although airlines and some large hotel chains and shipping companies do have such centralization, smaller organizations may have decentralized reservations systems and thus find it difficult to operate a yield management system effectively.

#### 4.3.3 Waiting Line Strategies :When Demand and Capacity Cannot be Matched

- Q8. Discuss about Waiting Line Strategies: When Demand and Capacity Cannot be Matched.

*Ans :*

Sometimes it is not possible to manage capacity to match demand, or vice versa. It may be too costly -for example, most health clinics would not find it economically feasible to add additional facilities or physicians to handle peaks in demand during the winter flu season; patients usually simply have to wait to be seen. Or demand may be very unpredictable and the service capacity very inflexible (it cannot be easily stretched to match unpredictable peaks in demand).

Sometimes waits may occur when demand backs up because of the variability in length of time for service. For example, even though patients are scheduled by appointments in a physician's office, frequently there is a wait because some patients take longer to serve than the time allotted to them. According to many sources, the misalignment in capacity and demand has reached crisis proportions in the emergency health care context.

For most service organizations, waiting customers are a fact of life at some point (see the accompanying photo). Waiting can occur on the telephone (customers put on hold when they call in to ask for information, order something, or make a complaint) and in person (customers waiting in line at the bank, post office, Disneyland, or a physician's office). Waiting can occur even with service transactions through the mail—delays in mail-order delivery—or backlogs of correspondence on a manager's desk.

In today's fast-paced society, waiting is not something most people tolerate well. As people work longer hours, as individuals have less leisure, and as families have fewer hours together, the pressure on people's time is greater than ever. In this environment, customers are looking for efficient, quick service with no wait.

Organizations that make customers wait take the chance that they will lose business or at the very least that customers will be dissatisfied.' Research suggests that waiting time satisfaction is nearly as important as service delivery satisfaction with respect to customer loyalty. Four general strategies are discussed.

#### A) Employ Operational Logic

If customer waits are common, a first step is to analyze the operational processes to remove any inefficiencies. It may be possible to redesign the system to move customers along more quickly. Modifications in the operational system were part of the solution employed by the First National Bank of Chicago in one of the earliest efforts to reduce customer waiting and improve service.

The bank developed a computer-based customer information system to allow tellers to answer questions more quickly, implemented an electronic queuing system, hired "peak-time" tellers, expanded its hours, and provided customers with alternative delivery channels. Collectively these efforts reduced customer wait time, increased productivity, and improved customer satisfaction.

#### B) Establish a Reservation Process

When waiting cannot be avoided, a reservation system can help to spread demand. Restaurants, transportation companies, theaters, physicians, and many other service providers use reservation systems to alleviate long waits. The California Department of Motor Vehicles allows customers to make appointments via the Internet to help reduce the time they must spending waiting at its offices.

The idea behind a reservation system is to guarantee that the service will be available when the customer arrives. Beyond simply reducing waiting time, a reservation system has the added benefit of potentially shifting demand to less

desirable time periods. A challenge inherent in reservation systems, however, is what to do about "no shows." Inevitably there will be customers who reserve a time but do not show up.

Some organizations deal with this problem by overbooking their service capacity on the basis of past records of no-show percentages. If the predictions are accurate, overbooking is a good solution. When predictions are inaccurate, however, customers may still have to wait and sometimes may not be served at all, as when airlines overbook the number of seats available on a flight. Victims of overbooking may be compensated for their inconvenience in such cases. To minimize the no-show problem, some organizations (such as hotels, airlines, conferences/training programs, and theaters) charge customers who fail to show up or cancel their reservations within a certain time frame.

### C) Differentiate Waiting Customers

Not all customers necessarily need to wait the same length of time for service. On the basis of need or customer priority, some organizations differentiate among customers, allowing some to experience shorter waits for service than others. Known as "queue discipline," such differentiation reflects management policies regarding whom to select next for service. The most popular discipline is first-come, first-served. However, other rules may apply. Differentiation can be based on factors such as

- **Importance of the customer.** Frequent customers or customers who spend large amounts with the organization can be given priority in service by providing them with a special waiting area or segregated lines.
- **Urgency of the job.** Those customers with the most urgent need may be served first. This strategy is used in emergency health care. It is also used by maintenance services such as air-conditioning repair that give priority to customers whose air conditioning is not functioning over those who call for routine maintenance.
- **Duration of the service transaction.** In many situations, shorter service jobs

get priority through "express lanes." At other times, when a service provider sees that a transaction is going to require extra time, the customer is referred to a designated provider who deals only with these special-needs customers.

- **Payment of a premium price.** Customers who pay extra (e.g., first class on an airline) are often given priority via separate check-in lines or express systems. At several Six Flags amusement parks, groups of up to six customers can purchase the use of Flashpass for about \$ 15 for a palm-sized device and \$15 per person (in addition to park entrance fees) to use the device, which is inserted at signs near the popular rides throughout the park, to keep their place in line virtually. The device sends a signal 10 minutes before it is time to come back and get on the ride (through a separate entrance), allowing customers to visit other attractions in the park without having to spend as much time in line. A "Gold" Flashpass can also be purchased, for \$25 per person and \$25 for the device, to move customers up in the queue so that they experience very little or even no wait.

### D) Make Waiting Pleasurable, or at Least Tolerable

Even when they have to wait, customers can be more or less satisfied, depending on how the wait is handled by the organization. Of course the actual length of the wait will affect how customers feel about their service experience. But it is not just the actual time spent waiting that has an impact on customer satisfaction—it is how customers feel about the wait and their perceptions during it.

The type of wait (e.g., a standard queue versus a wait due to a delay of service) can also influence how customers will react. In a classic article entitled "The Psychology of Waiting Lines," David Maister proposes several principles about waiting, each of which has implications for how organizations can make waiting more pleasurable or at least tolerable.

**1. Unoccupied Time Feels Longer Than Occupied Time**

When customers are unoccupied they will likely be bored and will notice the passage of time more than when they have something to do. Providing something for waiting customers to do, particularly if the activity offers a benefit in and of itself or is related in some way to the service, can improve the customer's experience and may benefit the organization as well. Examples include giving customers menus to look at while waiting in a restaurant, providing interesting information to read in a dentist's office, or playing entertaining programs over the phone while customers are on hold.

**2. Preprocess Waits Feel Longer Than In-Process Waits**

If wait time is occupied with activities that relate to the upcoming service, customers may perceive that the service has started and they are no longer actually waiting. This in-process activity will make the length of the wait seem shorter and will also benefit the service provider by making the customer better prepared when the service actually does begin. Filling out medical information while waiting to see the physician, reading a menu while waiting to be seated in a restaurant, and watching a videotape of the upcoming service event are all activities that can both educate the customer and reduce perceptions of waiting.

**3. Anxiety Makes Waits Seem Longer**

When customers fear that they have been forgotten or do not know how long they will have to wait, they become anxious, and this anxiety can increase the negative impact of waiting. Anxiety also results when customers are forced to choose in a multiple-line situation and they discover they have chosen the "wrong line."

To combat waiting line anxiety, organizations can provide information on the length of the wait. At its theme parks, Disney uses signs at intervals along the line that let customers know how long the wait will be from that point on.

Using a single line also alleviates customer anxiety over having chosen the wrong line. Explanations and reassurances that no one has forgotten them alleviate customer anxiety by taking away their cause for worry.

**4. Uncertain Waits Are Longer Than Known, Finite Waits**

Anxiety is intensified when customers do not know how long they will have to wait. Health care providers combat this problem by letting customers know when they check in how far behind the physician is that day. Some patients resolve this uncertainty themselves by calling ahead to ask. Maister provides an interesting example of the role of uncertainty, which he terms the "appointment syndrome."

Customers who arrive early for an appointment will wait patiently until the scheduled time, even if they arrive very early. However, once the expected appointment time has passed, customers grow increasingly anxious. Before the appointment time the wait time is known; after that, the length of the wait is not known.

**5. Unexplained Waits Are Longer Than Explained Waits**

When people understand the causes for waiting, they frequently have greater patience and are less anxious, particularly when the wait is justifiable. An explanation can reduce customer uncertainty and may help customers estimate how long they will be delayed. One of us, when waiting once with our children to see a pediatrician, was told that the doctor was delayed because another child had arrived with possible life-threatening injuries and he chose to focus his attention on that child.

As a parent who would want the same treatment for our children, the amount of extra wait time was acceptable—much more so than if there was no explanation at all and we were left to think that perhaps the doctor had not yet arrived from his early morning trip to the golf course. Customers who do not know the reason for a wait begin to feel powerless and irritated.

#### 6. Unfair Waits Are Longer Than Equitable Waits

When customers perceive that they are waiting while others who arrived after them have already been served, the apparent inequity will make the wait seem even longer. This situation can easily occur when there is no apparent order in the waiting area and many customers are trying to be served. Queuing systems that work on a first-come, first-served rule are best at combating perceived unfairness.

#### 7. The More Valuable the Service, the Longer the Customer Will Wait

Customers who have substantial purchases or who are waiting for a high-value service will be more tolerant of long wait times and may even expect to wait longer. For example, customers waiting to see a lawyer might consider a 15-minute wait to be acceptable, whereas the same wait at a convenience store might be considered completely unacceptable. In a supermarket, customers who have a full cart of groceries will generally wait longer than customers who have only a few items and expect to be checked through quickly. And diners expect to wait longer for service in an expensive restaurant than they do when eating at a "greasy spoon."

#### 8. Solo Waits Feel Longer Than Group Waits

People are more accepting of a longer wait when they are in a group than when they are alone because of the distractions provided by other members of the group. People also feel comfort in waiting with a group rather than alone. In some group waiting situations, such as at Disneyland or when patrons are waiting in long lines to purchase concert tickets, customers who are strangers begin to talk to each other and the waiting experience can actually become a fun part of the total service experience.

### 4.4 PARTICIPANTS IN SERVICES

#### Q9. Who are the Participants in Services?

*Ans :* (Imp.)

#### Participants in services

There are often a number of different types of company or people playing in any marketplace.

1. **Customers :** Of course the most important organization or people in the market are your customers. This includes both current and potential customers.

(i) **Major customers :** It is very common for most sales to be made to a relatively small set of big customers. These always need careful attention and may have account/relationship managers assigned to them. A problem is that big customers may also demand big discounts and special attention.

(ii) **Minor customers :** Minor customers buy less, but nevertheless are useful as in aggregate they may buy quite a lot. The only time minor customers are undesirable is when serving them costs more than the profit gained from them. This can happen when they are angered or when they try to gain an unfair attention for their smaller payment.

2. **Suppliers :** Suppliers may sell directly into the market, for example selling spare parts, but largely they need to be kept aligned to your strategy.

In some markets suppliers also supply your competitors. When supply is short, the supplier may hold a position of power in the choice of who to serve.

You can also have major and minor suppliers. Major suppliers are critical for everyday delivery and a problem from them can cause delays or product quality issues.

### 3. Complementors

Complementors are those who sell non-competing products and which generally help your sales. For example in a rock musical instrument market, drum and guitar manufacturers are complementors to one another.

It is generally a good idea to collaborate closely with complementors as mutual benefit may be gained. They may also seek to work with competitors, which can be a tricky situation — but if it all adds up to expanding the market, then this is beneficial. An alternative strategy, as with suppliers, is that if you can lead the complementors to support you more, then competitors may be weakened.

### 4. Competitors

Competitors are those who have products and services similar to you and where customers who are buying something will compare your offerings and prices directly, weighing one up against the other.

The interaction with competitors is usually directly antagonistic. You seek to convince customers that your offerings are better and that competitors' offerings are worse. Nevertheless, there are times when collaborating with competitors is helpful, for example in influencing sensible regulations.

### 5. Substitutors

Substitutors are like competitors but their products are not the same. The classic substitution is replacing butter with margarine (a battle that is still raging). Other substitutions are more evolutionary, for example where typewriters were substituted by word-processors.

Initially, substitutions may be seen as quite different, for example where computers were big and expensive alternatives to the typewriter. Yet innovation and evolution continued and computers eventually became cheaper than typewriters as well as offering benefits the typewriter could not emulate.

A critical attribute of a substitutor group is that they all seek the same 'share of wallet'. Hence, when a person is thirsty, all drinks are substitutes for one another.

### 6. Regulators

In any industry, standards are often helpful in many ways, from ensuring product safety to helping suppliers create plug-compatible parts that enable economies of scale and hence lower product prices.

Regulation may be driven by collaboration between competitors. Regulations may also be created by independent organizations or even governments, whose agendas may not align with company profit motives.

An important part of regulation is policing, without which regulations become only guidelines. Sometimes customers do their own policing, for example by not buying non-standard products. Regulation may also be done by independent inspectors who can have draconian punitive powers.

It can be an important part of marketing to demonstrate conformance to regulations. Displaying safety badges, showing ecological awards, and so on can help convince customers of the quality of the product and the integrity of the firm.

### 7. Influencers

There are also groups and organizations who have no direct control but who will seek to promote their own agendas by influencing players within the marketplace, including regulators and retailers. These often have an ethical basis, for example ecological or animal rights activists.

Lobby groups who represent certain business interests may also be involved, although often indirectly (for example in seeking to persuade regulators to create stronger controls).

Marketers need to be careful with influencers who can create bad publicity through demonstrations and leaking information to the press. Influencers can be helpful if you listen to them and take their concerns seriously.

#### Players in financial services sector

1. Financial service sector comes under the tertiary sector in which banks play a major role. For the growth of financial services industry, banks are led by the central bank of the country followed by commercial banks, co-operative banks, development banks, foreign banks, etc.
2. Hire purchase financier is also a player in the financial service sector as he enables the consumer to buy the product on credit basis.
3. Leasing companies through financial and operating lease ensure the acquiring of assets by producers on a long-term basis at a reasonable charge.
4. Factoring enables the seller to obtain 80% value of sales from the financial companies undertaking factoring services.
5. Underwriters and merchant bankers are additional players who promote not only companies but also ensure dynamic activity in the capital market.
6. Book-builders help companies in allotting shares to different categories of investors.
7. Mutual funds ensure investment by the public and also ensure tax relief to the investor.
8. Credit cards, another important player in the financial services, ensure the circulation of plastic money and enable purchase on credit by the consumer.
9. Credit rating companies play an important role by giving different credit ratings to companies to mobilize public deposits.

10. Housing finance companies and insurance companies also promote investment in the economy as they also form a part of the players in the financial services.
11. Asset liability management company enables mutual funds to undertake proper investment in different types of companies.
12. Finance companies in general and also as a part of non-banking finance companies provide additional funds to the above players so that there is more activity in the economy.

In addition to the above players, the government acts as the umpire and the various enactments as rules for playing a fair game in the field of financial services.

#### 4.5 EMPLOYEE'S ROLES IN SERVICE DELIVERY

##### Q10. Explain the Employee's Roles in Service Delivery.

*Ans :*

We focus on service employees and human resource practices that facilitate delivery of quality services. The assumption is that even when customer expectations are well understood (gap 1) and services have been designed and specified to conform to those expectations (gap 2), there may still be discontinuities in service quality when the service is not delivery as specified. These discontinuities are labeled gap 3 – the service performance gap – in the service quality framework. Because employees frequently deliver or perform the service, human resource issue are a major cause of this gap. By focusing on the critical role of service employees and by developing strategies that lead to effective customer-oriented service, organizations can bring to close the service performance gap.

The failure to deliver services are designed and specified can result from a number of employee and human performance factors: ineffective recruitment of service-oriented employees, role ambiguity and role conflict among contact employees, poor employee-technology-job fit, inappropriate evaluation and compensation systems, and lack of empowerment and teamwork.

### Service Culture

The behavior of employees in an organization will be heavily influenced by the culture of that organization, or the pervasive norms and values that shape individual and group behavior. Corporate culture has been defined as "the pattern of shared values and beliefs that give the members of an organization meaning, and provide them with the rules for behavior in the organization." Culture has been defined more informally as "the way we do things around here."

To understand at a personal level what corporate culture is, think of different places you have worked or organizations you have been a member of, such as churches, fraternities, schools, or associations - Your behavior and the behaviors of others were no doubt influenced by the underlying values, norms, and culture of the organization.

Experts have suggested that a customer-oriented, service-oriented organization will have at its heart a service culture, defined as "a culture where an appreciation for good service exists, and where giving good service to internal as well as ultimate, external customers is considered a natural way of life and one of the most important norms by everyone." This very rich definition has many implications for employee behaviors.

First, a service culture exists if there is an "appreciation for good service." This phrase does not mean that the company has an advertising campaign that stresses the importance of service, but people know that good service is appreciated and valued.

A second important point in this definition is that good service is given to internal as well as external customers. It is not enough to promise excellent service to final customers; all people within the organization deserve the same kind of service.

Finally, in a service culture good service is "a way of life" and it comes naturally because it is an important norm of the organization.

Service culture is critical to the creation of a customer-focused organization and has been identified as a source of competitive advantage in companies.

### A) Exhibiting Service Leadership

A strong service culture begins with leaders in the organization who demonstrate a passion for service excellence. Leonard Berry suggests that leaders of successful service firms tend to have similar core values, such as integrity, joy, and respect, and they "infuse those values into the fabric of the organization." Leadership does not consist of bestowing a set of commands from a thick rulebook but, rather, the regular and consistent demonstration of one's values. Employees are more likely to embrace a service culture when they see management living out these values. Espoused values—what managers say the values are—tend to have less impact on employees than enacted values—what employees believe the values to be because of what they observe management actually doing. That is, culture is what employees perceive that management really believes, and employees gain an understanding of what is important in the organization through the daily experiences they have with those people in key roles throughout the organization.

### B) Developing a Service Culture

A service culture cannot be developed overnight, and there is no magic, easy way to sustain a service culture. The human resource and internal marketing practices discussed later in the chapter can help develop a service culture over time. If, however, an organization has a culture rooted in product-, operations-, or government regulation-oriented traditions, no single strategy will magically change it into a service culture. Hundreds of little (but significant) factors, not just one or two big factors, are required to build and sustain a service culture.

### C) Transporting a Service Culture

Transporting a service culture through international business expansion is also very challenging. Attempting to "export" a corporate culture to another country creates additional issues. For instance, will the organization's service culture clash with a different national culture? If there is a clash, is it over what the actual values are, or over how they are to be enacted? If the issue is over what the values are, and they are core values critical to the firm's competitive advantage, then perhaps the company cannot be successful in that setting.

#### 4.5.1 Critical Role of Service Employees

##### Q11. Explain the Critical Role of Service Employees.

*Ans :*

An often-heard quotation about service organizations goes like this: "In a service organization, if you're not serving the customer, you'd better be serving someone who is." People—frontline employees and those supporting them from behind the scenes—are critical to the success of any service organization. The importance of people in the marketing of services is captured in the people element of the services marketing mix. The human actors who play a part in service delivery and thus influence the buyer's perceptions; namely, the firm's personnel, the customer, and other customers in the service environment.

The key focus on customer-contact service employees because:

- They are the sendee.
- They are the organization in the customer's eyes.
- They are the brand.
- They are marketers.

In many cases, the contact employee is the service—there is nothing else. For example, in most personal and professional services (like haircutting, personal trainers, child care, limousine services, counseling, and legal services) the contact employee provides the entire service singlehandedly. The offering is the employee. Thus, investing in the employee to improve the service parallels making a direct investment in the improvement of a manufactured product.

Even if the contact employee does not perform the service entirely, he or she may still personify the firm in the customer's eyes.

All the employees of a law firm or health clinic—from the professionals who provide the service to the receptionists and office staff—represent the firm to the client, and everything these individuals do or say can influence perceptions of the organization. Even off-duty employees, such as flight attendants or restaurant employees on a break, reflect on the organizations they represent.

Service employees are the brand. A Merrill Lynch financial advisor, a Nordstrom sales associate, a Southwest Airlines flight attendant—in each case, the primary image that a customer has of the firm is formed by the interactions the customer has with the employees of that firm. A customer sees Merrill Lynch as a good provider of financial services if the employees she interacts with are knowledgeable, understanding, and concerned about her financial situation and goals.

Similarly, a customer sees Nordstrom as a professional and empathetic company because of interactions he has with its sales associates. Even in a nonservice setting, Audi, an automobile manufacturer, recognizes the importance of its employees in representing and reinforcing the brand image of the company. As a result, Audi recruits service personnel at all levels whose psychological traits parallel and support the Audi image.

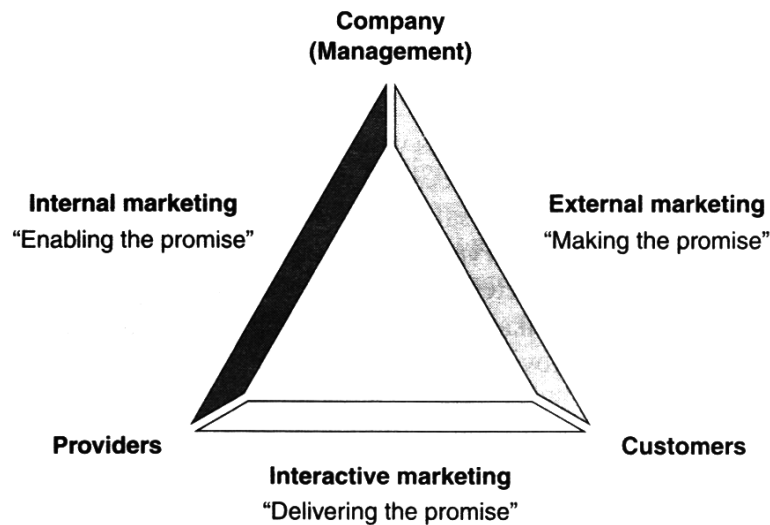
Because contact employees represent the organization and can directly influence customer satisfaction, they perform the role of marketers. They physically embody the product and are walking billboards from a promotional standpoint. Some service employees may also perform more traditional selling roles.

#### A) The Services Triangle

Services marketing is about promises—promises made and promises kept to customers. A strategic framework known as the services triangle visually reinforces the importance of people in the ability of firms to keep their promises and succeed in building customer relationships. The triangle shows the three interlinked groups that work together to develop, promote, and deliver services. These key players are labeled on the points of the triangle: the company (or SBU or department or "management"), the customers, and the providers.

Providers can be the firm's employees, subcontractors, or outsourced entities who actually deliver the company's services. Between these three points on the triangle, three types of marketing must be successfully carried out for a service to succeed: external marketing, interactive marketing, and internal marketing.





**Fig. : The Services Marketing Triangle**

On the right side of the triangle are the external marketing efforts that the firm engages in to develop its customers' expectations and make promises to customers regarding what is to be delivered. Anything or anyone that communicates to the customer before service delivery can be viewed as part of this external marketing function. But external marketing is just the beginning for services marketers: promises made must be kept.

On the bottom of the triangle is what has been termed interactive marketing or real-time marketing. Here is where promises are kept or broken by the firm's employees, subcontractors, or agents. Those people representing the organization are critical at this juncture. If promises are not kept, customers become dissatisfied and eventually leave. The left side of the triangle suggests the critical role played by internal marketing. Management engages in these activities to aid the providers in their ability to deliver on the service promise: recruiting, training, motivating, rewarding, and providing equipment and technology. Unless service employees are able and willing to deliver on the promises made, the firm will not be successful, and the services triangle will collapse.

All three sides of the triangle are essential to complete the whole, and the sides of the triangle should be aligned. That is, what is promised through external marketing should be the same as what is delivered; and the enabling activities inside the organization should be aligned with what is expected of service providers. Strategies for aligning the triangle, particularly the strategies associated with internal marketing, are the subject of this chapter.

## **B) Employee Satisfaction, Customer Satisfaction, and Profits**

Satisfied employees make for satisfied customers (and satisfied customers can, in turn, reinforce employees' sense of satisfaction in their jobs). Some researchers have even gone so far as to suggest that unless service employees are happy in their jobs, customer satisfaction will be difficult to achieve.

In its stores with the highest customer satisfaction, employee turnover was 54 percent, whereas in stores with the lowest customer satisfaction, turnover was 83 percent. Other research suggests that employees who feel they are treated fairly by their organizations will treat customers better, resulting in greater customer satisfaction.

### C) The Effect of Employee Behaviors on Service Quality Dimensions

Customers' perceptions of service quality will be affected by the customer-oriented behaviors of employees. In fact, all five dimensions of service quality (reliability, responsiveness, assurance, empathy, and tangibles) can be influenced directly by service employees.

Delivering the service as promised—reliability—is often totally within the control of frontline employees. Even in the case of automated services (such as ATMs, automated ticketing machines, or self-serve and pay gasoline pumps), behind-the-scenes employees are critical for making sure all the systems are working properly. When services fail or errors are made, employees are essential for setting things right and using their judgment to determine the best course of action for service recovery.

Frontline employees directly influence customer perceptions of responsiveness through their personal willingness to help and their promptness in serving customers. Consider the range of responses you receive from different retail store clerks when you need help finding a particular item of clothing. One employee may ignore your presence, whereas another offers to help you search and calls other stores to locate the item. One may help you immediately and efficiently, whereas another may move slowly in accommodating even the simplest request.

The assurance dimension of service quality is highly dependent on employees' ability to communicate their credibility and to inspire the customer's trust and confidence in the firm. The reputation of the organization will help, but in the end, individual employees with whom the customer interacts confirm and build trust in the organization or detract from its reputation and ultimately destroy trust. For startup or relatively unknown organizations, credibility, trust, and confidence will be tied totally to employee actions.

It is difficult to imagine how an organization would deliver "caring, individualized attention" to customers independent of its employees. Empathy implies that employees will pay attention, listen, adapt, and be flexible in delivering what individual customers need.

For example, research documents that when employees are customer oriented, have good rapport with customers, and exhibit perceptive and attentive listening skills, customers will evaluate the service more highly and be more likely to return. Employee appearance and dress are important aspects of the tangibles dimension of quality, along with many other factors that are independent of service employees (the service facility, decor, brochures, signage, and so on).

#### 4.5.2 Boundary - Spanning Roles

##### Q12. Discuss about Boundary - Spanning Roles.

*Ans :*

The frontline service employees are referred to as boundary spanners because they operate at the organization's boundary. As indicated in Figure, boundary spanners provide a link between the external customer and environment and the internal operations of the organization. They serve a critical function in understanding, filtering, and interpreting information and resources to and from the organization and its external constituencies.



**Fig.: Critical Roles of Boundary Spanners**

In industries such as fast food, hotel, telecommunication, and retail, boundary spanners are generally the least skilled, lowest-paid employees in the organization. They are order-takers, front-desk employees, telephone operators, store clerks, truck drivers, and delivery people. In other industries, boundary spanners are well-paid, highly educated professionals—for example, doctors, lawyers, accountants, consultants, architects, and teachers.

No matter what the level of skill or pay, boundary-spanning positions are often high-stress jobs. In addition to mental and physical skills, these positions require extraordinary levels of emotional labor, frequently demand an ability to handle interpersonal and interorganizational conflict, and call on the employee to make real-time trade-offs between quality and productivity on the job. These stresses and trade-offs can result in failure to deliver services as specified, which widens the service performance gap.

### 1. Emotional Labor

The term emotional labor was coined by Arlie Hochschild to refer to the labor that goes beyond the physical or mental skills needed to deliver quality service." In general, boundary-spanning service employees are expected to align their displayed emotions with organizationally desired emotions via their use of emotional labor. Such labor includes delivering smiles, making eye contact, showing sincere interest, and engaging in friendly conversation with people who are essentially strangers and who may or may not ever be seen again.

Friendliness, courtesy, empathy, and responsiveness directed toward customers all require huge amounts of emotional labor from the frontline employees who shoulder this responsibility for the organization. Emotional labor draws on people's feelings (often requiring them to suppress their true feelings) to be effective in their jobs.

A frontline service employee who is having a bad day or is not feeling just right is still expected to put on the face of the organization when dealing with customers.

### 2. Sources of Conflict

Frontline employees often face interpersonal and interorganizational conflicts on the job. Their frustration and confusion can, if left unattended, lead to stress, job dissatisfaction, a diminished ability to serve customers, and burnout. Because they represent the customer to the organization and offer need to manage a number of customers simultaneously, frontline employees inevitably have to do with conflicts, including :

- (a) person/role conflicts,
- (b) organization/client conflicts, and
- (c) interclient conflicts,

#### (a) Person / Role Conflict

In some situations, boundary spanners feel conflict between what they are asked to do and their own personalities, orientations, or values. In a society such as the United States, where equality and individualism are highly valued, service workers may feel role conflict when they are required to subordinate.

Person/role conflict also arises when employees are required to wear specific clothing or change some aspect of their appearance to conform to the job requirements. A young lawyer, just out of school, may feel an internal conflict with his new role when his employer requires him to cut his hair and trade his casual clothes for a three-piece suit.

#### (b) Organization / Client Conflict

A more common type of conflict for frontline service employees is the conflict between their two bosses, the organization and the individual customer. Service employees are typically rewarded for following certain standards, rules, and procedures. Ideally these rules and standards are customer based, is described in Chapter 10. When they are not, or when a customer makes excessive demands, the employee has to choose whether to follow the rules or satisfy the demands.

The organization/ client conflict is greatest when the employee believes the organization is wrong in its policies and must decide whether to accommodate the client and risk losing a job, or to follow the policies. These conflicts are especially severe when service employees depend directly on the customer for income. For example, employees who depend on tips or commissions are likely to face greater

levels of organization/client conflict because they have even greater incentives to identify with the customer.

**(c) Inter client Conflict**

Sometimes conflict occurs for boundary spanners when incompatible expectations and requirements arise from two or more customers. This situation occurs most often when the service provider is serving customers in turn (a bank teller, a ticketing agent, a doctor) or is serving many customers simultaneously (teachers, entertainers).

When serving customers in turn, the provider may satisfy one customer by spending additional time, customizing the service, and being very flexible in meeting the customer's needs. Meanwhile, waiting customers may become dissatisfied because their needs are not being met in a timely way. Beyond the timing issue, different clients may prefer different modes of service delivery. Having to serve one client who prefers personal recognition and a degree of familiarity in the presence of another client who is all business and would prefer little interpersonal interaction can also create conflict for the employee.

When serving many customers at the same time, employees often find it difficult or impossible to simultaneously serve the full range of needs of a group of heterogeneous customers. This type of conflict is readily apparent in any college classroom in which the instructor must meet a multitude of student expectations and different preferences for formats and style. It is also apparent in an entertainment venue or any type of group training service.

**3. Quality / Productivity Trade-Offs**

Frontline service workers are asked to be both effective and efficient: they are expected to deliver satisfying service to customers and at the same time to be cost-effective and productive in what they do.

A physician in an HMO, for example, is expected to deliver caring, quality, individualized service to her patients but at the same time to serve a certain number of patients within a specified time frame. A checker at a grocery store is expected to know his customers and to be polite and courteous, yet also to process the groceries accurately and move people through the line quickly.

Technology is being used to an ever-greater degree to balance the quality/quantity trade-off to increase productivity of service workers and at the same time free them to provide higher-quality service for the customer (see the Technology Spotlight).

**4.5.3 Strategies for Delivering Service Quality through People**

**Q13. What are the Strategies for Delivering Service Quality through People?**

*Ans :*

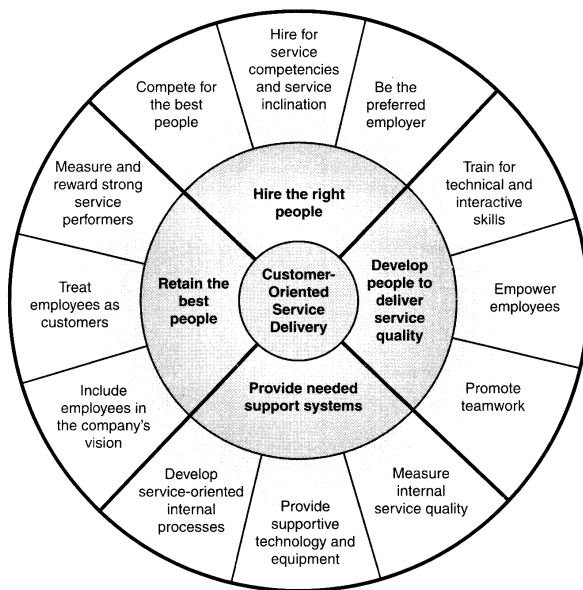
(Dec.-19)

A complex combination of strategies is needed to ensure that service employees are willing and able to deliver quality services and that they stay motivated to perform in customer-oriented, service-minded ways. These strategies for enabling service promises are often referred to as internal marketing, as shown on the left side of service triangle. The importance of attracting, developing, and retaining good people in knowledge- and service-based industries cannot be overemphasized, as an article in the Harvard Business Review suggested :

It's no secret that business success today revolves largely around people, not capital... In most industries, people costs are much higher than capital costs. Even when a company isn't people intensive overall, a people-based business embedded in the company often drives corporate performance.

By approaching human resource decisions and strategies from the point of view that the primary goal is to motivate and enable employees to deliver customer-oriented promises successfully, an organization will move toward delivering service quality through its people. The strategies presented here are organized around four basic themes. To build a customer-oriented, service-minded workforce, an organization must

1. hire the right people,
2. develop people to deliver service quality,
3. provide the needed support systems, and
4. retain the best people. Within each of these basic strategies are a number of specific substrategies for accomplishing the goal, as shown in figure.



**Fig.: Human Resource Strategies for Delivering Service Quality through People**

### 1. Hire the Right People

To effectively deliver service quality, considerable attention should be focused on recruiting and hiring service personnel. Such attention is contrary to traditional practices in many service industries, where service personnel are the lowest on the corporate ladder and work for minimum wage. At the other end of the spectrum, in the professional services, the most important recruiting criteria are typically technical training, certifications, and expertise. However, many organizations are now looking above and beyond the technical qualifications of applicants to assess their customer and service orientation as well. Figure shows a number of ways to go about hiring the right people.

#### (a) Compete for the Best People

To get the best people, an organization needs to identify them and compete with other organizations to hire them. Leonard Berry and A. Parasuraman refer to this approach as "competing for talent market share." They suggest that firms act as marketers in their pursuit of the best employees, just as they use their marketing expertise to compete for customers.

Firms that think of recruiting as a marketing activity will address issues of market (employee) segmentation, product (job) design, and promotion of job availability in ways that attract potential long-term employees.

#### (b) Hire for Service Competencies and Service Inclination

Once potential employees have been identified, organizations need to be conscientious in interviewing and screening to identify the best people from the pool of candidates. Service employees need two complementary capacities: service competencies and service inclination.

Service competencies are the skills and knowledge necessary to do the job. In many cases, employees validate competencies by achieving particular degrees and certifications, such as attaining a doctor of law (JD) degree and passing the relevant state bar examination for lawyers. Similar rites of passage are required of doctors, airline pilots, university professors, teachers, and many other job seekers before they are ever interviewed for service jobs in their fields. In other cases, service competencies may not be degree-related but may instead relate to basic intelligence or physical requirements.

#### c) Be the Preferred Employer

One way to attract the best people is to be known as the preferred employer in

a particular industry or in a particular location. UPS regularly conducts a survey among its employees to create an "Employer of Choice Index" and sets, annual goals to remain a preferred employer. Google, the online search service that provides access to information throughout the Internet and is used daily by customers around the world, also enjoys a reputation as a preferred employer. Google states on its website that it "puts employees first when it comes to daily life in all of our offices."

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

To grow and maintain a workforce that is customer oriented and focused on delivering quality, an organization must develop its employees to deliver service quality. That is, once it has hired the right employees, the organization must train and work with these individuals to ensure service performance.

### (a) **Train for Technical and Interactive Skills**

To provide quality service, employees need ongoing training in the necessary technical skills and in interactive skills. Examples of technical skills are working with accounting systems in hotels, cash machine procedures in a retail store, underwriting procedures in an insurance company, and any operational rules the company has for running its business.

Service employees also need training in interactive skills that allow them to provide courteous, caring, responsive, and empathetic service. Research suggests firms can teach employees how to develop rapport with customers—one type of interactive skill—by teaching them in how to engage in pleasant conversation, ask questions, or use humor as they interact with customers. Employees can be taught opening lines or conversation prompts to help identify commonalities with their customers.

### (b) **Empower Employees**

Many organizations have discovered that to be truly responsive to customer needs, frontline providers need to be empowered to accommodate customer requests and to recover on the spot when things go wrong. *Empowerment* means giving employees the authority, skills, tools, and desire to serve the customer. Although the key to empowerment is giving employees authority to make decisions on the - ainer's behalf, authority alone is not enough.

### (c) **Promote Teamwork**

The nature of many service jobs suggests that customer satisfaction will be enhanced when employees work as teams. Because service jobs are frequently frustrating, demanding, and challenging, a teamwork environment will help alleviate some of the stresses and strains. Employees who feel supported and feel that they have a team backing them up will be better able to maintain their enthusiasm and provide quality service.

## 3. **Provide Needed Support Systems**

To be efficient and effective in their jobs, service workers require internal support systems that are aligned with their need to be customer focused. This point cannot be overemphasized. In fact, without customer-focused internal support and customer-oriented systems, it is nearly impossible for employees to deliver quality service no matter how much they want to.

### (a) **Measure Internal Service Quality**

One way to encourage supportive internal service relationships is to measure and reward internal service. By first acknowledging that everyone in the organization has a customer and then measuring customer perceptions of internal service quality, an organization

can begin to develop an internal quality culture. In their quest to provide the best possible service to their patients, the Mayo Clinic formally measures internal service quality between departments annually.

An internal customer service audit is one tool that can be used to implement a culture of internal service quality. Through the audit, internal organizations identify their customers, determine their needs, measure how well they are doing, and make improvements. The process parallels market research practices used for external customers.

**(b) Provide Supportive Technology and Equipment**

When employees do not have the right equipment or their equipment fails them, they can be easily frustrated in their desire to deliver quality service. To do their jobs effectively and efficiently, service employees need the right equipment and technology.

Having the right technology and equipment can extend into strategies regarding workplace and workstation design.

In designing their corporate headquarters' offices, Scandinavian Airline Systems identified particular service-oriented goals that it wished to achieve, among them teamwork and open, frequent communication among managers. An office environment was designed with open spaces (to encourage meetings) and internal windows in offices (to encourage frequent interactions). In this way the work space facilitated the internal service orientation.

**(c) Develop Service-Oriented Internal Processes**

To best support service personnel in their delivery of quality service on the front

line, an organization's internal processes should be designed with customer value and customer satisfaction in mind. In other words, internal procedures must support quality service performance. In many companies, internal processes are driven by bureaucratic rules, tradition, cost efficiencies, or the needs of employees.

Providing service- and customer-oriented internal processes can therefore imply a need for total redesign of systems. This kind of redesign of systems and processes has become known as "process reengineering." Although developing service-oriented internal processes through reengineering sounds sensible, it is probably one of the most difficult strategies to implement, especially in organizations steeped in tradition. Refocusing internal processes and introducing large amounts of new, supportive technology were among the changes made by Yellow Transportation in its transition from a traditional, operations-driven company to a customer-focused.

**4. Retain the Best People**

An organization that hires the right people, trains and develops them to deliver service quality, and provides the needed support must also work to retain them. Employee turnover, especially when the best service employees are the ones leaving, can be very detrimental to customer satisfaction, employee morale, and overall service quality. And, just as they do with customers, some firms spend a lot of money attracting employees but then tend to take them for granted (or even worse), causing these good employees to search for job alternatives. Although all the strategies depicted earlier in Figure will support the retention of the best employees, here we will focus on some strategies that are particularly aimed at this goal.

**(a) Include Employees in the Company's Vision**

For employees to remain motivated and interested in sticking with the organization and supporting its goals, they need to share an understanding of the organization's vision. People who deliver service day in and day out need to understand how their work fits into the big picture of the organization and its goals. They will be motivated to some extent by their paychecks and other benefits, but the best employees will be attracted away to other opportunities if they are not committed to the vision of the organization. And they cannot be committed to the vision if that vision is kept secret from them.

**(b) Treat Employees as Customers**

If employees feel valued and their needs are taken care of, they are more likely to stay with the organization. Tom Siebel, for example, saw the CEO's primary job as cultivating a corporate culture that benefits all employees and customers. "If you build a company and a product or service that delivers high levels of customer satisfaction, and if you spend responsibly and manage your human capital assets well, the other external manifestations of success, like market valuation and revenue growth, will follow."

Many companies have adopted the idea that employees are also customers of the organization and that basic marketing strategies can be directed at them. The products that the organization has to offer its employees are a job (with assorted benefits) and quality of work life. To determine whether the job and work-life needs of employees are being met, organizations conduct periodic internal marketing research to assess employee satisfaction and needs.

**(c) Measure and Reward Strong Service Performers**

If a company wants the strongest service performers to stay with the organization, it must reward and promote them. This strategy may seem obvious, but often the reward systems in organizations are not set up to reward service excellence. Reward systems may value productivity, sales, or some other dimension that can potentially work against providing good service. Even those service workers who are intrinsically motivated to deliver high service quality will become discouraged at some point and start looking elsewhere if their efforts are not recognized and rewarded.

Reward systems need to be linked to the organization's vision and to outcomes that are truly important.

**4.5.4 Customer - Oriented Service Delivery****Q14. Explain about Customer - Oriented Service Delivery.**

*Ans :*

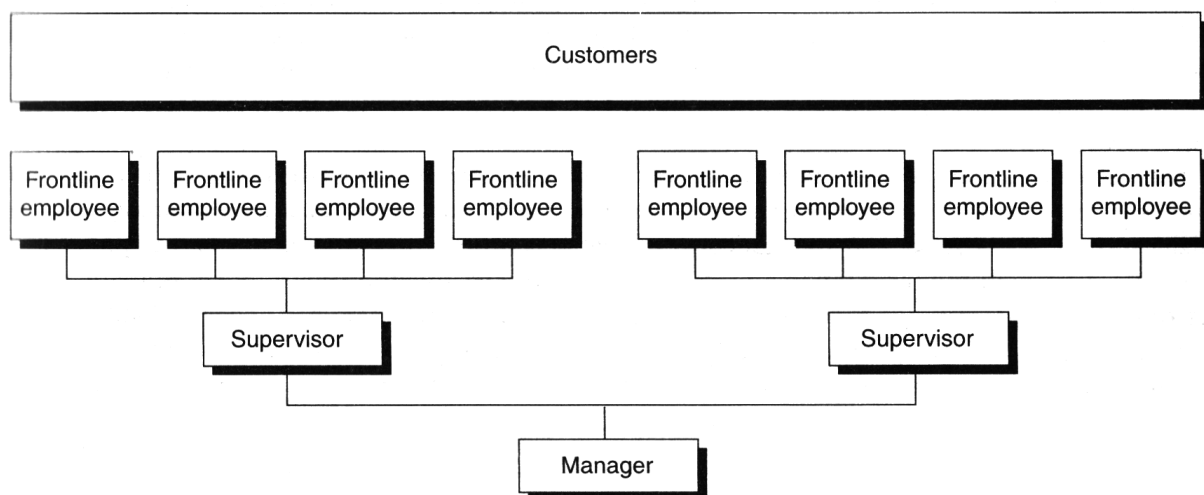
As indicated by the examples presented, specific approaches for hiring and energizing frontline workers take on a different look and feel across companies, based on the organization's values, culture, history, and vision. For example, "developing people to deliver service quality" is accomplished quite differently at Southwest Airlines than at Disney. At Disney the orientation and training process is highly structured, scripted, and standardized. At Southwest, the emphasis is more on developing needed skills and then empowering employees to be spontaneous and nonscripted in their approach to customers.

Firms that have a strong service culture clearly put an emphasis on the customer and the customer's experience. To do so, firms must also create an environment that staunchly supports the customer contact employee, because this person in the organization is frequently the most responsible for ensuring that the customer's experience is delivered



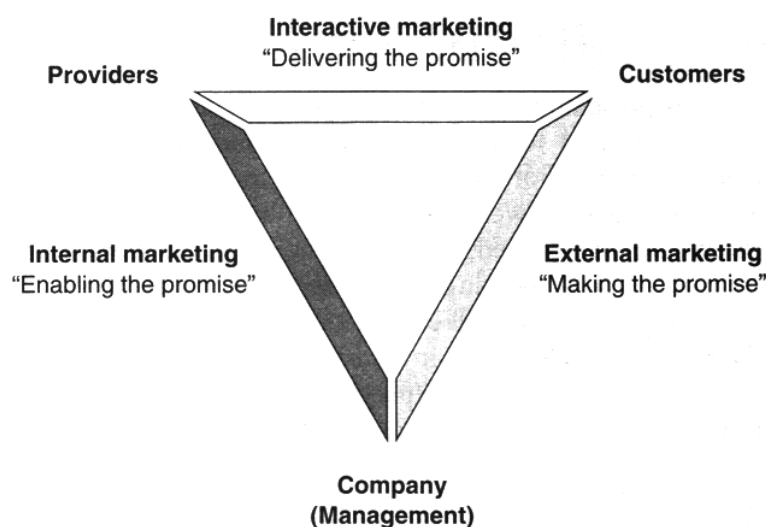
as designed. Historically, many firms have viewed senior management as the most important people in the firm, and indeed, organizational charts tend to reflect this view in their structure. This approach places management at the top of the structure and (implicitly) the customer at the bottom, with customer contact employees just above them.

If the organization's most important people are customers, they should be at the top of the chart, followed by those with whom they have contact. Such a view, illustrated in Figure, is more consistent with a customer-oriented focus. In effect, the role of top-level management changes from that of commanding to that of facilitating and supporting employees in the organization who are closest to the customer.



**Fig.: Customer-Focused Organizational Chart**

Indeed, a truly customer-oriented management team might actually "flip" the services marketing triangle presented earlier in the chapter so that the management point of the triangle is at the bottom of the triangle, with customer and employees equally placed at the top—as illustrated in figure. A statement by Michel Bon, former CEO of France Telecom, succinctly summarizes the philosophy behind such an approach :



**Fig.: Inverted Services Marketing Triangle**

If you sincerely believe that “the customer is king,” the second most important person in this kingdom must be the one who has a direct interaction on a daily basis with the one who is king.

By flipping the services marketing triangle, the two groups that are the most important people to the organization customers and those who interact with customers are placed in a position of prominence.

#### 4.6 CUSTOMER’S ROLES IN SERVICE DELIVERY

**Q15. Discuss about Customer’s Roles in Service Delivery.**

*Ans :*

We examine the unique and varied roles played by customers in service delivery and cocreation. In some cases, service customers are present in the “factory” (the place the service is produced and/or consumed), interacting with employees and with other customers.

For example, in a classroom or training situation, students (the customers) are sitting in the factory (the classroom) interacting with the instructor and other students as they consume and cocreate educational services. Because they are present during service production, customers can contribute to or detract from the successful delivery of the service and to their own satisfaction.

In a manufacturing context, rarely does the production facility contend with customer presence on the factory floor, nor does it rely on the customer’s immediate, real-time input to manufacture the product. As our opening vignette illustrates, service customers can actually produce services themselves and to some extent are responsible for their own satisfaction. Using iPrint’s online services, customers cocreate value for themselves and in the process also reduce the prices they pay for printing services.

Because customers are participants in service production and delivery, they can potentially contribute to the widening of gap 3, the service performance gap. That is, customers themselves can influence whether the service meets customer-defined specifications. Sometimes customers

contribute to gap 3 because they lack understanding of their roles and exactly what they can or should do in a given situation, particularly if the customer is confronting a service concept for the first time.

At other times customers may understand their roles but be unwilling or unable to perform for some reason. In a health club context, members may understand that to get into good physical shape they must follow the workout guidelines set up by the trainers. If work schedule or illness keeps members from living up to their part of the guidelines, the service will not be successful because of customer inaction. In a different service situation, customers may choose not to perform the roles defined for them because they are not rewarded in any way for contributing their effort.

For example, many grocery store customers choose not to use the automated self-checkout because they see no benefit in terms of speed, price, or convenience. When service customers are enticed through price reductions, greater convenience, or some other tangible benefit, they are more likely to perform their roles willingly, as in one case of our opening vignette about iPrint.

#### The Importance of Customers in Service Cocreation and Delivery

Customer participation at some level is inevitable in all service situations. Services are actions or performances, typically produced and consumed simultaneously. In many situations employees, customers, and even others in the service environment interact to produce the ultimate service outcome. Because they participate, customers are indispensable to the production process of service organizations, and in many situations they can actually control or contribute significantly to their own dis/satisfaction.

We focus on the customer receiving or cocreating the service and on fellow customers in the service environment.

#### 1. Customer Receiving the Service

Because the customer participates in the delivery process, he or she can contribute to narrowing or widening gap 3 through behaviors that are appropriate or inappropriate, effective or ineffective, productive or unproductive. The level

of customer participation—low, medium, high—varies across services. In some cases, all that is required is the customer's physical presence {low level of participation), with the employees of the firm doing all the service production work.

## 2. Fellow Customers

In many service contexts, customers receive and/or cocreate the service simultaneously with other customers or must wait their turn while other customers are being served. In both cases, "fellow customers" are present in the service environment and can affect the nature of the service outcome or process. Fellow customers can enhance or detract from customer satisfaction and perceptions of quality.

Some of the ways fellow customers can negatively affect the service experience are by exhibiting disruptive behaviors, causing delays, excessively crowding, and manifesting incompatible needs. In restaurants, hotels, airplanes, and other environments in which customers are cheek to jowl as they receive the service, crying babies, smoking patrons, and loud, unruly groups can be disruptive and detract from the experiences of their fellow customers.

Finally, customers who are being served simultaneously but who have incompatible needs can negatively affect each other. This situation can occur in restaurants, college classrooms, hospitals, and any service establishment in which multiple segments are served simultaneously.

### Customer Roles in Service Cocreation and Delivery

The following sections examine in more detail three major roles played by customers in service cocreation and delivery: customers as productive resources, customers as contributors to quality and satisfaction, and customers as competitors.

#### 1. Customers as Productive Resources

Service customers have been referred to as "partial employees" of the organization—human resources who contribute to the organization's productive capacity. Some management experts have suggested that the organization's boundaries be expanded to consider the customer as part of

the service system. In other words, if customers contribute effort, time, or other resources to the service production process, they should be considered as part of the organization.

Customer inputs can affect the organization's productivity through both the quality of what they contribute and the resulting quality and quantity of output generated.

Customer participation in service production raises a number of issues for organizations. Because customers can influence both the quality and quantity of production, some experts believe the delivery- system should be isolated as much as possible from customer inputs to reduce the uncertainty they can bring into the production process. This view sees customers as a major source of uncertainty—in the timing of their demands and the uncontrollability of their attitudes and actions.

Organizational productivity is increased by using customers as a resource to perform tasks previously completed by employees. In both business-to-business and business-to-consumer contexts, organizations are turning to automated customer service, either online or via automated voice response systems. One prominent goal with online customer service is to increase organizational productivity by using the customer as a partial employee, performing his or her own service.

#### 2. Customers as Contributors to Service Quality and Satisfaction

Another role customers can play in service cocreation and delivery is that of contributor to their own satisfaction and the ultimate quality of the services they receive. Customers may care little that they have increased the productivity of the organization through their participation, but they likely care a great deal about whether their needs are fulfilled. Effective customer participation can increase the likelihood that needs are met and that the benefits the customer seeks are actually attained. Think about services such as health care, education, personal fitness, and weight loss in which the service outcome is highly dependent on customer participation. In these services, unless the customers perform their roles effectively, the desired service outcomes are not possible.

### 3. Customers as Competitors

A final role played by service customers is that of potential competitor. If self-service customers can be viewed as resources of the firm, or as “partial employees,” they could in some cases partially perform the service or perform the entire service for themselves and not need the provider at all. Thus, customers in a sense are competitors of the companies that supply the service. Whether to produce a service for themselves (internal exchange)—for example, child care, home maintenance, car repair—or have someone else provide the service for them (external exchange) is a common dilemma for consumers.”

Similar internal versus external exchange decisions are made by organizations. Firms frequently choose to outsource service activities such as payroll, data processing, research, accounting, maintenance, and facilities management. They find that it is advantageous to focus on their core businesses and leave these essential support services to others with greater expertise. Alternatively, a firm may decide to stop purchasing services externally and bring the service production process in-house.

Whether a household or a firm chooses to produce a particular service for itself or contract externally for the service depends on a variety of factors. A proposed model of internal/external exchange suggest- that such decisions depend on the following :

- **Expertise capacity.** The likelihood of producing the service internally is increased if the house-hold or firm possesses the specific skills and knowledge needed to produce it. Having the expertise will not necessarily result in internal service production, however, because other factors (available resources and time) will also influence the decision. (For firms, making the decision to outsource is often based on; recognizing that although they may have the expertise, someone else can do it better.)
- **Resource capacity.** To decide to produce a service internally, the household or firm must have the needed resources including people,

space, money, equipment, and materials. If the resources are not available internally, external exchange is more likely.

- **Time capacity.** Time is a critical factor in internal/external exchange decisions. Households and; inns with adequate time capacity are more likely to produce services internally than are groups with time constraints.
- **Economic rewards.** The economic advantages or disadvantages of a particular exchange decision will be influential in choosing between internal and external options. The actual monetary costs of the - two options will sway the decision.
- **Psychic rewards.** Rewards of a noneconomic nature have a potentially strong influence on exchange decisions. Psychic rewards include the degree of satisfaction, enjoyment, gratification, or happiness that is associated with the external or internal exchange.
- **Trust.** In this context, trust means the degree of confidence or certainty the household or firm has So the various exchange options. The decision will depend to some extent on the level of self-trust in producing the service versus trust of others.
- **Control.** The household or firm’s desire for control over the process and outcome of the exchange will also influence the internal/ external choice. Entities that desire and can implement a high degree of control over the task are more likely to engage in internal exchange.

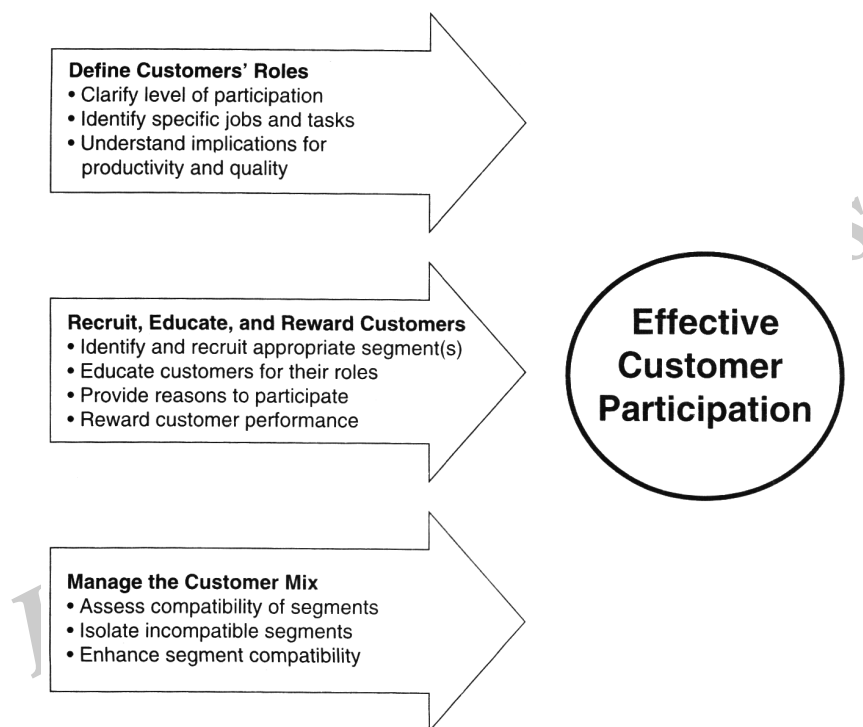
The important thing to remember from this section is that in many service scenarios, customers can and often do choose to fully or partially produce the service themselves. Thus, in addition to recognizing that customers can be productive resources and co-creators of quality and value, organizations also need to recognize the customer’s role as a potential competitor.

#### 4.7 STRATEGIES OR ENHANCING CUSTOMER PARTICIPATION

**Q16. What are the Strategies or Enhancing Customer Participation?**

*Ans :*

The level and the nature of customer participation in the service process are strategic decisions that can impact an organization's productivity, its positioning relative to competitors, its service quality, and its customers' satisfaction. In the following sections we will examine the strategies captured in Figure for involving customers effectively in the service delivery and cocreation process. The overall goals of a customer participation strategy will typically be to increase organizational productivity and customer satisfaction while simultaneously decreasing uncertainty due to unpredictable customer actions.



**Fig. : Strategies for Enhancing Customer Participation**

##### **A) Define Customers' Roles**

In developing strategies for addressing customer involvement in service cocreation and delivery, the organization first determines what type of participation is desirable from customers and how the customer wishes to participate. Identifying the current level of customer participation can serve as a starting point. Customers' roles may be partially predetermined by the nature of the service.

The service may require only the customer's presence (a concert, airline travel), or it require moderate levels of input from the customer in the form of effort or information (a haircut, tax preparation), or it may require the customer to actually cocreate the service outcome (fitness training, consulting, self-service offerings). In some cases, the service may be dependent on customers co-creating the service with and for each other as in the case of eBay, Facebook, and many of the social networking services available online.

The organization may decide that it is satisfied with the existing level of participation it requires from customers but wants to make the participation more effective.

Alternatively, the organization may choose to increase the level of customer participation, which may reposition the service in the customers' eyes. Experts have suggested that higher levels of customer participation are strategically advisable when service production and delivery are inseparable; marketing -benefits (cross-selling, building loyalty) can be enhanced by on-site contact with the customer; and customers can substitute for the labor and information provided by employees."

Higher levels of customer participation may also be advisable when increased participation is desired by customers and when it can enhance their satisfaction and service outcomes. For example, in health care, researchers and providers are working on ways to gain more active customer participation in treatment decisions. The Internet and other technology advances have helped propel customers into this role in taking responsibility for their own health and well-being, as illustrated in our Technology Spotlight.

Finally, the organization may decide it wants to reduce customer participation due to all the uncertainties it causes. In such situations the strategy may be to isolate all but the essential tasks, keeping customers away from the service facility and employees as much as possible. Mail order is an extreme example of this form of service. Customers are in contact with the organization via telephone or the Internet, never see the organization's facility, and have limited employee interactions. The customer's role is thus extremely limited and can interfere very little with the service delivery process.

Once the desired level of participation (from both the customer and firm perspectives) is clear, the organization can define more specifically what the customer's role and tasks entail—in essence the customer's "job description." The job description will vary with the type of service and the organization's desired position within its industry. It might entail helping oneself, helping others, or promoting the company.

### **B) Recruit, Educate, and Reward Customers**

Once the customer's role is clearly defined, the organization can think in terms of facilitating that role. In a sense, the customer becomes a "partial employee" of the organization at some level, and

strategies for managing customer behavior in service production and delivery can mimic to some degree the efforts aimed at service employees.

As with employees, customer participation in service production and delivery will be facilitated when (1) customers understand their roles and how they are expected to perform, (2) customers are able to perform as expected, and (3) customers receive valued rewards for performing as expected. Through these means, the organization will also reduce the inherent uncertainty associated with the unpredictable quality and timing of customer participation.

#### **1. Recruit the Right Customers**

Before the company begins the process of educating and socializing customers for their roles, it must attract the right customers to fill those roles. The expected roles and responsibilities of customers should be clearly communicated in advertising, personal selling, and other company messages. By previewing their roles and what is required of them in the service process, customers can self-select into (or out of) the relationship. Self-selection should result in enhanced perceptions of service quality from the customer's point of view and reduced uncertainty for the organization.

#### **2. Educate and Train Customers to Perform Effectively**

Customers need to be educated, or in essence "socialized," so that they can perform their roles effectively. Through the socialization process, service customers gain an appreciation of specific organizational values, develop the abilities necessary to function within a specific context, understand what is expected of them, and acquire the skills and knowledge to interact with employees and other customers. Customer education programs can take the form of formal orientation programs, written literature provided to customers, directional cues and signage in the

service environment, and information obtained from employees and other customers.

Customer education can also be partially accomplished through written literature, online resources, and customer "handbooks." Many hospitals have developed patient materials, very similar in appearance to employee handbooks, to describe what the patient should do in preparation for arrival at the hospital, what will happen when he or she arrives, and policies regarding visiting hours and billing procedures. The information may even describe the roles and responsibilities of family members.

### 3. Reward Customers for their Contributions

Customers are more likely to perform their roles effectively, or to participate actively, if they are rewarded for doing so. Rewards are likely to come in the form of increased control over the delivery process, time savings, monetary savings, and psychological or physical benefits.

### C) Manage the Customer Mix

Because customers frequently interact with each other in the process of service delivery and consumption, another important strategic objective is the effective management of the mix of customers who simultaneously experience the service. If a restaurant chooses to serve two segments during the dinner hour that are incompatible with each other—for example, single college students who want to party and families with small children who want quiet—it may find that the two groups do not merge well. Of course it is possible to manage these segments so that they do not interact with each other by seating them in separate sections or by attracting the two segments at different times of day. Serving incompatible customer segments is also an issue at professional sporting events where families with children may be sitting next to loud (and sometimes drunk and obnoxious) fans. Each of these groups has different, and incompatible, goals for the experience.

Similarly, many university golf courses must often cater to both student customers (who are not knowledgeable of the rules of the game, lack proper equipment and clothing and may be loud and inconsiderate of others) and older, perhaps retired, customers who are very knowledgeable of the rules and follow them religiously, generally have the proper equipment clothing, and are respectful and serious when playing. Again, the two groups have different goals for the experience and radically different levels of understanding of the sometimes unstated rules.

The process of managing multiple and sometimes conflicting segments is known as compatibility management, broadly defined as "a process of first attracting [where possible] homogeneous consumers to the service environment, then actively managing both the physical environment and customer-to customer encounters in such a way as to enhance satisfying encounters and minimize dissatisfying encounters." Compatibility management will be critically important for some businesses (such as health clubs, public transportation, and hospitals) and less important for others. Table 13.2 lists seven interrelated characteristics of service businesses that will increase the importance of compatibility management.

## 4.8 MASS PRODUCTION AND DELIVERY

### Q17. Discuss about Mass Production and Delivery.

*Ans :*

(May-19)

Mass production, application of the principles of specialization, division of labour, and standardization of parts to the manufacture of goods. Such manufacturing processes attain high rates of output at low unit cost, with lower costs expected as volume rises. Mass production methods are based on two general principles: (1) the division and specialization of human labour and (2) the use of tools, machinery, and other equipment, usually automated, in the production of standard, interchangeable parts and products. The use of modern methods of mass production has brought such improvements in the cost, quality, quantity,

and variety of goods available that the largest global population in history is now sustained at the highest general standard of living.

### **Mass Customization in Design of Service Delivery System**

Mass customization (MC) refers to the ability to produce customized goods and services enmasse. It has been regarded as one of the most advanced operation models in the 21st century, thus, leading to a great academic concern in recent years. However, the majority of the studies on MC are mainly manufacturing based and "The lack of studies dealing with mass customization in service operation is perhaps one of the main gaps in the current mass customization literature" against the context that the importance of service sector in a nation's economy has been commonly recognized.

In services management domain, the service design is among the least studied and understood topics although, it has been identified as "perhaps the most crucial factor for quality". Most of the existing literatures about service design have been conducted within the domain of traditional operation and could not jump out of traditional restrain of either customization or efficiency.

#### **1. Significance and dynamics of the mass customization in service organizations**

Those researches realized both the academic and practical significance of applying the MC related concepts into the service operations. Hart (1995) in the early time pointed out that MC would be an opportunity for the development of service industry. Taylor and Lyon (1995) distinguished the MC and mass production in fastfood services and forecast the new MC model would take the place of mass production used by McDonald. Mok et al. (2000) introduced the concept and the four approaches of MC and call for application of those to the hospitality services. Menor et al. (2002) pointed out that application of product structure and modularity into the service product innovation would be an important research domain.

#### **2. Mass customization in service design**

The application of MC in service design from two standing points as mentioned previously will be checked: the service content-based (product) and service system-based (process) design.

#### **3. Mass customization in service design from the service content-based prospective**

Instead of using directly the term "mass customization", lots of the papers in this domain have applied some concepts similar to MC into the service design such as product structure, product platform and agility, etc. McLaughlin (1996) discussed the issues of variables in service product design. Bitran and Pedrosa (1998) mentioned the design of parts in services and product structure. Menor et al. (2001) proposed the service model of agility reflecting on higher flexibility in operations. Meyer and DeTore (2001) applied the manufacturing-based principles of product platform into the new product development in service context. A "real" application of mass customization in services was conducted firstly by Peters and Saidin (2000) who analyzed the structure of modularized service products based on a case study in Malaysia. Besides, Li (2005) proposed a service product innovation strategy based on MC with special concern in modularity.

### **4.9 SERVICE GUARANTEE**

**Q18. What is service guarantee ? Discuss.**

*Ans :* (May-19)

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



**Features of a Good Guarantee:**

A good guarantee has the following features:

- (i) **Easy to Collect:** The remedy should be supplied immediately. For example, a dissatisfied customer at Hampton Inn should receive an immediate credit for the price of the dissatisfying service. The customer should not have to drive across town to obtain payment, nor should the customer have to fill out a laborious form or accumulate a tedious amount of documentation.
- (ii) **Easy to Invoke:** Let us consider the Hampton Inn guarantee, for example – Suppose the customer's air conditioning did not work on a hot summer night, and the problem could not be rectified, in spite of bringing it to the management's attention. For the guarantee to be effective, management should make that night free, without waiting for the customer to ask. If it evident that the customer is dissatisfied, and the problem has not been solved, then management should invoke the guarantee itself.  
  
In most cases, management does not really trust the guarantee, and, therefore, puts up barriers to invoking it. Management may be concerned about loss of revenues, which may be linked to management compensation. This creates a natural tension between the intended corporate culture, as desired by top management, and the actual corporate culture, as implemented by middle management, may be the front line. Counteracting an employee's natural reluctance to invoke or carry out the guarantee requires careful training.
- (iii) **Easy to Understand:** If the customer does not understand the guarantee, then that customer will not see any benefit. For maximum effectiveness, the guarantee should be specific. For example, Domino's pizza guaranteed delivery in 30 minutes. That is much better than guaranteeing "fast delivery," which is hard to pin down. Be specific.

(iv) **Meaningful:** The guarantee must be about things that customers care about. A fast-food restaurant guaranteeing 10-minute service at lunch will probably do better than one guaranteeing to address customers by their first name. This is because fast service at lunch is important to fast-food customers, whereas personal familiarity is not.

(v) **Unconditional:** If a guarantee applies only to left-handed people on Friday in a leap year when there is a full moon, few customers will be very interested. By comparison, consider the Hampton Inn guarantee. It says simply, "If you're not completely satisfied, we don't expect you to pay."

This is unconditional and you don't need to be a lawyer to understand it. A guarantee loses power as conditions are placed on it. Consider the Lufthansa on-time guarantee, for example. The conditions exempted 95% of the cases to which it might be applied, reducing its effectiveness by at least that percentage.

**Benefits of Service Guarantee**

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

- (i) **Sets Clear Standards for the Organisation –** It prompts the company to clearly define what it expects of its employees and to communicate that to them. The guarantee gives employees service-oriented goals that can quickly align employee behaviours around customer strategies.
- (ii) **Forces the Company to Focus on its Customers –** To develop a meaningful guarantee, the company must know what is important to its customers what they expect and value. In many cases "satisfaction" is guaranteed, but in order for the guarantee to work effectively, the company must clearly understand what satisfaction means for its customers (what they value and expect).

- (iii) A Good Service Guarantee Studies the Impact on Employee Morale and Loyalty – A Guarantee generates pride among employees. Through feedback from the guarantee, improvements can be made in the service that benefits customers, and indirectly employees.
- (iv) Immediate and Relevant Feedback from Customers – It provides an incentive for customers to complain and, thereby, provides more representative feedback to the company than simply relying on the relatively few customers who typically voice their concerns. The guarantee communicates to customers that they have the right to complain.
- (v) Reduces their Sense of Risk and Builds Confidence in the Organisation for Customers – Because services are intangible and often highly personal or ego involving, customers seek information and cues that will help reduce their sense of uncertainty.

#### Types of Service Guarantees:

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

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

- (ii) **An Unconditional Guarantee:** Promises performance on all aspects of service, and "in its pure form, promises complete customer satisfaction, and at a minimum, a full refund or complete, no cost problem resolution for the payout." Unconditional guarantees require a slightly different firm approach since variables that determine customer satisfaction such as effect and cognitive evaluations of attribute performance (Oliver) are not within the firm's control.

Implementation of unconditional guarantees requires firms to focus efforts on managing customer interactions instead of specific service attributes. The distinction between specific or overall (unconditional) performance is important as it defines the scope of the marketing effort required to communicate and support the guarantee, and has widely different implications for service guarantee design and management.

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

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

**4.10 ETHICS IN SERVICE FIRMS****Q19. What are the Ethics in Service Firms?**

*Ans :*

The area of services marketing is a highly crucial one for potential ethical violations. The services industry, which drives over two-thirds of our national economy, is about to experience severe changes due to increasing competition. The temptation to make ethical compromises will pose a dramatic threat to the business climate.

We review conceptual approaches to the field of marketing ethics and *conclude* that existing models often lack an important component which affects ethical decisionmaking. That component includes the interorganizational variables: the primary task environment, including immediate customers and suppliers to the buyer and seller; the secondary task environment, comprised of suppliers and customers to the immediate suppliers and customers, competitors, and regulatory agencies, and the macro-environment, those broader forces which impinge on the activities in the primary and secondary task environments.

We suggest various propositions for circumstances under which unethical behavior is likely to occur within the interorganizational domain. The overarching framework is that of service industries in an increasingly competitive environment.

The field of business ethics is rapidly becoming big business. During the last fifteen years we have seen "the proliferation of a great number of books and articles on ethical problems in business; the emergence of several centers and institutes at least partly dedicated to the subject or to related problems; the spread of business ethics courses in both college and business school curricula; and even, in some corporations, the development of seminars in ethics for executives". Peter Drucker has added to this list "the many earnest attempts to write 'business ethics' into law". Within this general focus on business ethics, marketing is a "focus of concern which is particularly vulnerable to criticism with

respect to unethical practices; marketing sub-areas of advertising, personal selling, pricing, marketing research and international marketing offer ample opportunity for the display of unethical activities".

The existing literature on business and marketing ethics is extensive. However, as Bommer *et al.* (1987) point out, there is an absence of well-developed models of ethical and unethical behavior in marketing. This paper examines the general field of marketing ethics and, using literature drawn from marketing, sociology and organizational behavior, develops a framework for assessing ethics in the field of services marketing. A model is suggested based on interorganizational relationships and a series of hypotheses are presented.

**Organizational-level issues in marketing ethics**

As Waters has stated (1978), corporate morality has focused on the individual level of analysis as distinguished from an intra-organizational level of analysis. Both are valid, but they lead to different ideas about action. Individual-level considerations result in "moral exhortation," or calls to the individual to behave in certain ways.

Analysis at the intra-organizational level leads to examination of pressures that might exist within the organization to compromise one's personal standards to achieve company goals. Waters identifies a number of what he terms "organizational blocks," or circumstances which prevent ethical behavior.

## Short Question and Answers

### 1. Service Blueprinting.

*Ans :*

The service blueprint is a technique used for service innovation, but has also found applications in diagnosing problems with operational efficiency and can be used to conceptualise structural change (i.e. repositioning). The technique was first described by Lynn Shostack, a bank executive, in the Harvard Business Review in 1982. The blueprint shows processes within the company, divided into different components which are separated by lines.

Service blueprinting is a process analysis methodology proposed by Shostack. Shostack's methodical procedure draws upon time/motions method engineering, PERT/project programming and computer system and software design. The proposed blueprint allows for a quantitative description of critical service elements, such as time, logical sequences of actions and processes, also specifying both actions/events that happen in the time and place of the interaction (front office) and actions/events that are out of the line of visibility for the users, but are fundamental for the service.

Define service blueprinting as a tool for simultaneously depicting the service process, the points of customer contact, and the evidence of the service from the customer's point of view. With this description, the authors emphasize the different systemic layers overlapping in a service, from the layer of customer interaction and physical evidence to the layer of internal interaction within the service production process.

### 2. Components of Service Blueprint

*Ans :*

There are five components of a service blueprint. Our example shows a simple blueprint for a one-night stay in a hotel. They are :

#### 1. Customer actions

This includes all the steps a customer takes during the service delivery process. In a

Service Blueprint, customer actions are usually depicted in sequence, from start to finish. Customer actions are central to the Service Blueprint, so they are described first.

#### 2. The on stage visible actions taken by employees

Onstage visible actions by employees are the face-to-face contacts with the customer during the service delivery. These are separated from the customer by the line of interaction. Service delivery actions by frontline customer contact employees are shown here. Each time the line of interaction is crossed through an interaction between a customer and contact employee (or self service technology), a moment of truth occurs. During these moments of truth, customers judge your quality and make decisions regarding future purchases.

#### 3. Backstage actions taken by employees that are not visible to the customer

The next part of the Service Blueprint is the "backstage" invisible actions of employees that impact customers. Actions here are separated from onstage service delivery by the line of visibility. Everything above the line of visibility is seen by the customer while everything below it is invisible. In our hotel example, these actions included taking the food order (accurately) and preparing a quality meal.

#### 4. Company support processes used throughout the service delivery

The fourth critical component of a Service Blueprint is the "support processes" that customer contact employees rely on to effectively interact with the customer. These processes are all the activities contributed by employees within the company who typically don't contact customers. These need to

happen, however, to deliver the service. Clearly, service quality is often impacted by these below-the-line of interaction activities.

### 5. Physical evidence of the service

Finally, for each customer moment of truth the physical evidence of the service delivery at each point of customer contact is recorded at the top of the blueprint.

### 3. Demand Patterns

*Ans :*

To manage fluctuating demand in a service business, it is necessary to have a clear understanding of demand patterns, why they vary, and the market segments that comprise demand at different points in time. A number of questions need to be answered regarding the predictability and underlying causes of demand.

#### 1. The Charting of Demand Patterns

To begin to understand demand patterns, the organization needs to chart the level of demand over relevant time periods. Organizations that have good customer information systems can chart this information very accurately. Others may need to chart demand patterns more informally. Daily, weekly, and monthly demand levels should be tracked, and if seasonality is a suspected problem, graphing should be done for data from at least the past year.

In some services, such as restaurants or health care, hourly fluctuations within a day may also be relevant. Sometimes demand patterns are intuitively obvious; in other cases, patterns may not reveal themselves until the data are tracked.

#### 2. Predictable Cycles

In looking at the graphic representation of demand levels, predictable cycles may be detected, including daily (variations occur by hours), weekly (variations occur by day), monthly (variations occur by day or week), and/or yearly (variations occur according to months or seasons).

### 4. Yield management

*Ans :*

Yield management is a term that has become attached to a variety of methods, some very sophisticated, employed to match demand and supply in capacity-constrained services. Using yield management models, organizations find the best balance at a particular point in time among the prices charged, the segments sold to, and the capacity used.

The goal of yield management is to produce the best possible financial return from a limited available capacity. Specifically, yield management—also referred to as revenue management—attempts to allocate the fixed capacity of a service provider (e.g., seats on a flight, rooms in a hotel, rental cars) to match the potential demand in various market segments (e.g., business traveler, tourist) so as to maximize revenue or yield.

Although the implementation of yield management can involve complex mathematical models and computer programs, the underlying effectiveness measure is the ratio of actual revenue to potential revenue for a particular measurement period:

$$\text{Yield} = \frac{\text{Actual revenue}}{\text{Potential revenue}}$$

where

$$\text{Actual revenue} = \text{Actual capacity used} \times$$

$$\text{Average actual price}$$

$$\text{Potential revenue} = \text{Total capacity} \times$$

$$\text{Maximum price}$$

The equations indicate that yield is a function of price and capacity used. Recall that capacity constraint? can be in the form of time, labor, equipment, or facilities. Yield is essentially a measure of the extent to which an organization's resources (or capacities) are achieving their full revenue-generating potential. Assuming that total capacity and maximum price cannot be changed, yield approaches a value of 1 as actual capacity utilization increases or when a higher actual price can be charged for a given capacity used.

**5. Employ Operational Logic**

*Ans :*

If customer waits are common, a first step is to analyze the operational processes to remove any inefficiencies. It may be possible to redesign the system to move customers along more quickly. Modifications in the operational system were part of the solution employed by the First National Bank of Chicago in one of the earliest efforts to reduce customer waiting and improve service.

The bank developed a computer-based customer information system to allow tellers to answer questions more quickly, implemented an electronic queuing system, hired "peak-time" tellers, expanded its hours, and provided customers with alternative delivery channels. Collectively these efforts reduced customer wait time, increased productivity, and improved customer satisfaction.

**6. Exhibiting Service Leadership**

*Ans :*

A strong service culture begins with leaders in the organization who demonstrate a passion for service excellence. Leonard Berry suggests that leaders of successful service firms tend to have similar core values, such as integrity, joy, and respect, and they "infuse those values into the fabric of the organization." Leadership does not consist of bestowing a set of commands from a thick rulebook but, rather, the regular and consistent demonstration of one's values. Employees are more likely to embrace a service culture when they see management living out these values. Espoused values—what managers say the values are—tend to have less impact on employees than enacted values—what employees believe the values to be because of what they observe management actually doing. That is, culture is what employees perceive that management really believes, and employees gain an understanding of what is important in the organization through the daily experiences they have with those people in key roles throughout the organization.

**7. Developing a Service Culture**

*Ans :*

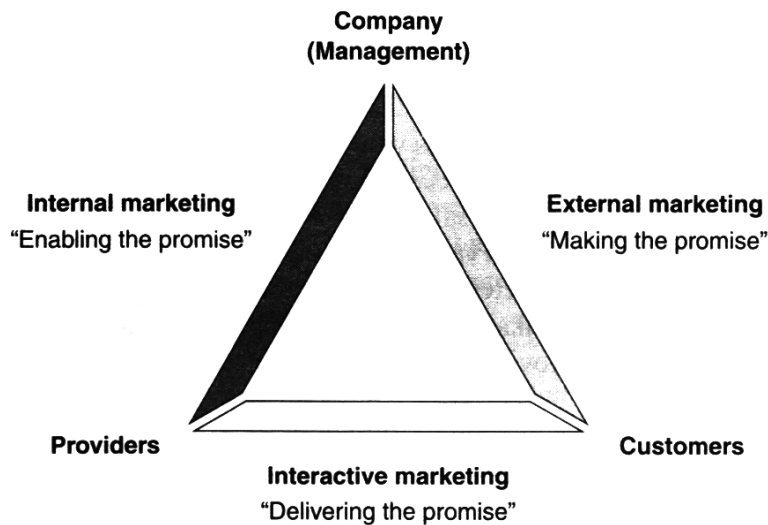
A service culture cannot be developed overnight, and there is no magic, easy way to sustain a service culture. The human resource and internal marketing practices discussed later in the chapter can help develop a service culture over time. If, however, an organization has a culture rooted in product-, operations-, or government regulation-oriented traditions, no single strategy will magically change it into a service culture. Hundreds of little (but significant) factors, not just one or two big factors, are required to build and sustain a service culture.

**8. The Services Triangle**

*Ans :*

Services marketing is about promises—promises made and promises kept to customers. A strategic framework known as the services triangle visually reinforces the importance of people in the ability of firms to keep their promises and succeed in building customer relationships. The triangle shows the three interlinked groups that work together to develop, promote, and deliver services. These key players are labeled on the points of the triangle: the company (or SBU or department or "management"), the customers, and the providers.

Providers can be the firm's employees, subcontractors, or outsourced entities who actually deliver the company's services. Between these three points on the triangle, three types of marketing must be successfully carried out for a service to succeed: external marketing, interactive marketing, and internal marketing.



**Fig. : The Services Marketing Triangle**

On the right side of the triangle are the external marketing efforts that the firm engages in to develop its customers' expectations and make promises to customers regarding what is to be delivered. Anything or anyone that communicates to the customer before service delivery can be viewed as part of this external marketing function. But external marketing is just the beginning for services marketers: promises made must be kept.

## **9. Emotional Labor**

*Ans :*

The term emotional labor was coined by Arlie Hochschild to refer to the labor that goes beyond the physical or mental skills needed to deliver quality service." In general, boundary-spanning service employees are expected to align their displayed emotions with organizationally desired emotions via their use of emotional labor. Such labor includes delivering smiles, making eye contact, showing sincere interest, and engaging in friendly conversation with people who are essentially strangers and who may or may not ever be seen again.

Friendliness, courtesy, empathy, and responsiveness directed toward customers all require huge amounts of emotional labor from the frontline employees who shoulder this responsibility for the organization. Emotional labor draws on people's feelings (often requiring them to suppress their true feelings) to be effective in their jobs.

A frontline service employee who is having a bad day or is not feeling just right is still expected to put on the face of the organization when dealing with customers.

# UNIT V

**Managing Service Promises:** Managing Distribution Channels in Service Industry –Strategies for Distribution, Managing People in Service Industry – Challenges, Pricing Strategies for Services – Methods, Promotion Strategies for Services - Need for Coordination in Marketing Communication, five categories of strategies to match service promises with delivery.

## 5.1 MANAGING SERVICE PROMISES

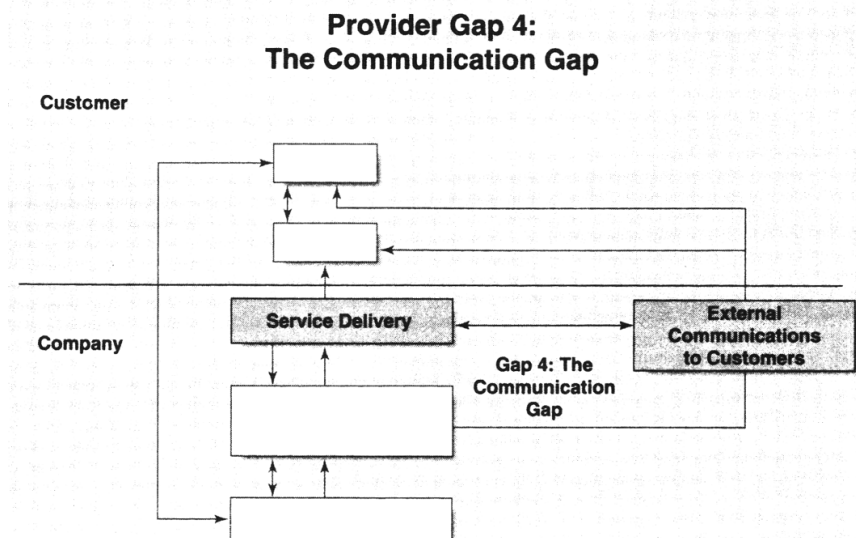
**Q1. Write about Managing Service Promises.**

*Ans :*

**(May-19)**

The fourth provider gap, shown in the accompanying figure, illustrates the difference between service delivery and the service provider's external communications. Promises made by a service company through its media advertising, sales force, and other communications may potentially raise customer expectations that serve as the standard against which customers assess service quality. Broken promises can occur for many reasons: ineffective marketing communications, overpromising in advertising or personal selling, inadequate coordination between operations and marketing, and differences in policies and procedures across service outlets.

In service companies, a fit between communications about service and actual service delivery is necessary.



Integrated services marketing communications – careful integration and organization of all of a service marketing organization's external and inter-active communications channels. The chapter describes why this communication is necessary and how companies can do it well. Successful company communications are the responsibility of both marketing and operations: marketing must accurately but beguilingly reflect what happens in actual service encounters, and operations must deliver what is promised in marketing



communication. If communications set up unrealistic expectations for customers, the actual encounter will disappoint the customer.

The pricing of services. In packaged goods (and even in durable goods), many customers possess enough price knowledge before purchase to be able to judge whether a price is fair or in line with competition. With services, customers often have no internal reference point for prices before purchase and consumption. Techniques for developing prices for services are more complicated than those for pricing tangible goods, and all the approaches for setting prices must be adapted for the special characteristics of services.

## 5.2 MANAGING DISTRIBUTION CHANNELS IN SERVICE INDUSTRY

### Q2. Write about distribution channel.

*Ans :*

A distribution channel consists of a set of people or firms who are intrinsically involved in the transfer of goods or services from the producer to the end user. The end user could either be an individual consumer or an industrial consumer. A channel of distribution includes the producer of the goods and services, the consumer of the same and a series of intermediaries like wholesalers, dealers, retailers, agents, etc.

Place in case of services determine where is the service product going to be located. The best place to open up a petrol pump is on the highway or in the city. A place where there is minimum traffic is a wrong location to start a petrol pump. Similarly, a software company will be better placed in a business hub with a lot of companies nearby rather than being placed in a town or rural area.

### Factors Affecting Choice of Channels

The primary factor that affects the choice of channel for a service firm is the nature of the market and the service consumer's buying behaviour. The secondary factors that affect channel choice are the service product, the intermediaries and the service firm itself.

## 1. Target Market Considerations

The following target market characteristics greatly influence the choice of channels:

- (i) **Type of Market:** If the end users are individual consumers, they would be better serviced by retailers; for business or institutional consumers, it would be more feasible to use direct marketing. Thus, cell phone service providers use retailers for selling their SIM cards to individual consumers and have their own sales personnel to service institutional consumers.
- (ii) **Volume of Consumers:** If the number of consumers is large, then middlemen are used (travel agencies); if the consumers are lesser in number, like business consumers, then the service firm uses its own sales force (advertising agency and client servicing).
- (iii) **Geographic Cluster:** If the consumers are clustered in a certain geographical area then it would be feasible for the service firm to use its own sales force.

If the customers are scattered over the geographical area, then travel costs might make having dedicated sales personnel a costly proposition. Intermediaries are used for such market. Size of the service contract: If the size of the service order is large, then the distribution is most direct; if the service order size is small, and then intermediaries are used.

**Example:** Radhakrishna Hospitality Services is in the catering and food supply business and has a turnover of over ' 600 crore; it prefers to use its own sales personnel to service large business orders.

## 2. Service Offer Considerations

The choice of channel is greatly affected by whether the offer is a good or a service. Thus the characteristics of a service product, like intangibility, perishability, inseparability, etc. are major influencers.

- (i) **Perishability and Intangibility:** Lack of storage makes middlemen redundant in service distribution. There is no need for holding inventory, breaking bulk or giving varieties and assortments. Those services which have a higher degree of tangibility in the product-service continuum will require the services of intermediaries (for example, retailing in general, travel, restaurants etc.); those which have the minimum tangible components will be able to achieve their organisational goals through direct marketing (for example, in counselling, psychiatry, medical and legal services, etc.)
- (ii) **Concept Product:** If the offer is highly technical and conceptual, making it very difficult for the consumer to envision the end product, benefit and usage, then personal selling and very persuasive marketing would be required. Services like insurance, time-sharing resorts etc. require concept selling and therefore the use of own sales personnel. It would require higher involvement from the service firm in servicing the customer before and after the sales.
- (iii) **Unit Value of the Service:** If the service value is small, like collection of bills for cell phone services, then the distribution is done through intermediaries. If the unit value of the service is large, like leased line connectivity for the Internet through ISPs like Satyam, or managing the complete travel business, often the firm does direct distribution.

### 3. Intermediary Considerations

The channels chosen by the service firm are greatly influenced by the quality, category and availability of intermediaries.

- (i) **Availability of Intermediaries:** There may not be any intermediaries doing business in the service firm's

chosen areas or even if they exist may not be available to the service firm as they may be associated with its competitors. In either case, the onus of developing the intermediary or going for an alternative channel lies on the service provider.

- (ii) **Services Provided by the Intermediaries:** An intermediary is chosen for his capability of providing those services which the service firm would normally not be in a position to provide. For international service firms, this would include contacts, market penetration, legal and other services and storage. Services which are on the tangibility continuum, like restaurants (McDonald's, Pizza Hut, KFC etc.), souvenir shops, retailers, etc. as well as tele-info-communication service providers like cell phone operators and cable channel television will require intermediaries. It will not be feasible for the service firms to involve themselves in the services that the intermediaries can provide.

- (iii) **Attitudes of Intermediaries towards the Service Provider:** The intermediaries might have negative or antagonistic attitudes towards the policies of the service provider and may not be willing to be associated with them. In that case, the service firm might have to look at alternative channels, like going for direct distribution. There is already a groundswell of resistance against the entry of mega retailer Wal-Mart in India by several sections of the industry: traders, other retailers, suppliers, politicians, opinion leaders, etc.

### 4. Service Firm's Considerations

A major factor that influences the choice of the channel is the service firm's own considerations, priorities and situation.

- (i) **Desire for Greater Control of the Channel:** Service firms who lay great store by the right service experience, where an encounter leads to a positive experience by the customer and finally customer retention, would like to take control of the service delivery process and therefore service distribution. This happens when the service is critical to the offer, and a stronger control on service quality is required.
- (ii) **Management ability of the Service Producer:** Some service firms may not have distribution ability commensurate with or demanded by their service offer design and delivery. Intermediaries are then involved in the distribution of the service offer.
- (iii) **Financial Resources of the Service Firm:** A service firm strong in its finances or financial access will be able to distribute its offers itself; a weaker firm might farm out the distribution to middlemen. Distribution of the service through such channels like franchising and intermediaries like franchisees helps a service firm to increase its capital and get its service brand spread in a cost-effective way.
- (iv) **Services Provided or Shared by the Firm:** The choice of a channel is decided by the service producer depending on the types of services demanded by the intermediaries. The middlemen like retailers of mobile phone products selling SIM cards, handsets, etc., insist that the glow signs, tradeshows and exhibition costs are shared by the service firms. Many retailers insist that the service firm spend on national advertising, which should precede distribution. If the demands are felt to be unreasonable, then the service firm must seek alternative channels of distribution.

### 5.2.1 Strategies for Distribution

#### Q3. What are the Strategies for Distribution?

*Ans :*

#### Distribution Channel Strategies

Distribution channel strategies are designed to maximize the sales of products as they enter a market. The strategies are most commonly discussed and planned by the end retailer, who is selling direct to the consumer. Numerous questions loom over the retailers.

#### 1. Understanding Demand

Moving inventory and purchasing through distribution channels is an investment for retailers. Managing inventory requires that retailers purchase in bulk and make estimates about sales. If they over purchase and do not sell, then margins take a major hit. If they under purchase and misjudge the demand, then earning opportunity is diminished. Knowing that demand exists liberates businesses to use a purchasing strategy, which involves ongoing marketing cycles. Demand drives marketing at phase. A business that does not know demand, will market ahead of purchasing to test the market and safeguard purchases.

#### 2. Marketing in Advance

Pushing marketing activities ahead of orders is a strategic distribution channel strategy used to test demand, while preventing mismanagement of orders. Pre-orders are on strategy that's used to know the exact production and order quantity used to meet demand. Drop-shipping distribution models also have a strategic advantage. The model not only has a reduced margin but also has less risk and overhead. The drop shipper markets and sells products from wholesaler catalogs, and has the wholesaler or a logistics channel manage and deliver the inventory. They never touch the product and are completely sales focused.

### 3. Multiple Channel Strategies

A multiple distribution channel strategy works for retailers with diverse product lines. Diversifying distribution channels reduces the risk associated with an single channel, by ensuring sourcing is running smoothly across several alternative channels. It also leverages pricing flexibility, as products are sourced and moved to market, using different methods. The retailer can price shop, using each strategy, and ultimately capitalize on the lowest cost option. Alternatively, the retailer can leverage the channel with the least amount of lag time to quickly source and meet demand.

### 4. Sales and Distribution Channels

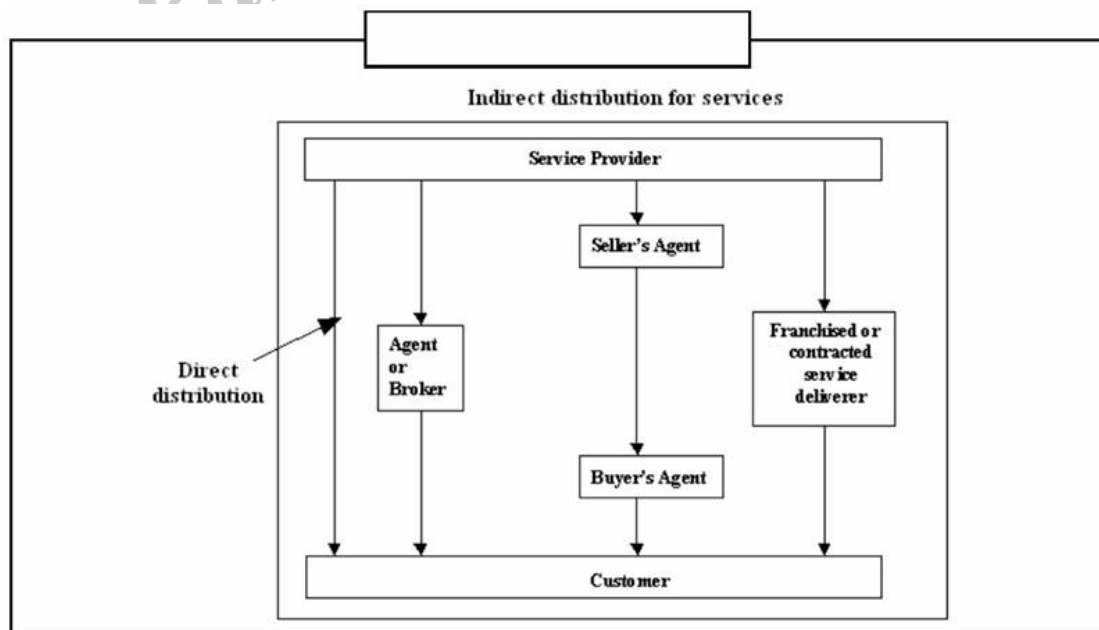
Sales models and distribution channels are interconnected. The ability to source and sell will always be tied together. High-ticket items are often divided into sales regions or territories, where dealers are guaranteed access to their markets without same-brand competition. This model has moves from the manufacturer to the distributor. The distributor manages dealers and delivers inventory. The dealers focus on consumer sales.

### Types of Intermediaries

There are two types of channels at the disposal of the marketer:

1. **Direct distribution:** This is a channel that has no middlemen and consists of only the producer and the end user. The firm reaches directly to the consumer and the service industry mostly uses this method of distribution. Only those goods marketers who have strong finances and can afford to lock up a lot of their capital in inventory or whose products have high technology (hi-fi speaker and other audio equipment manufacturer Bose Corporation) adopt direct distribution. Thus a service firm can choose to go direct if it has well trained personnel, as in the case of hospitals, hotels and education services.
2. **Indirect distribution:** This distribution consists of the producer, end consumer and at least one middleman or intermediary. For consumer and industrial goods distribution, there is more than one intermediary while services have one middleman, the agent. Airlines use the indirect method, which includes travel agents.

Figure



Task Enlist 5 companies that follow direct distribution and 5 companies that follow only indirect distribution. Also draw the distribution process for any one of them.

### Multiple Channels

Sometimes service marketers resort to more than one channel of distribution for the following reasons:

- (i) **Targeting a wider market:** To get a wider penetration a virtual swamping coverage is done by using multiple channels.
- (ii) **Avoiding over-dependence on a single channel:** A service marketer could become vulnerable to unreasonable demands in the later stages if it is distributing through only one channel. To spread the risk of dependence, many service marketers like credit card marketers have more than one channel.

### 5.2.2 Managing People in Service Industry

#### Q4. Explain the role of intermediaries in service industry.

*Ans :* (May-19)

#### Role of Intermediaries

Intermediaries play the following roles:

1. **Information Flow:** The intermediaries like retailers, wholesalers, dealers, stockists, agents, buyers, etc., are important sources of information for the marketer. They are in touch with their respective customers, other traders and competitors and this information flows to the service marketer with careful management. The intermediaries are also one of the early warning systems for any of the following changes:
  - (i) **Customer demographics and psychographics:** A retailer will come to know the changes in the customer profile in his catchments area, their spending capability, addresses, average family size, occupation, their lifestyles and attitudes etc. So will an agent for a

life insurance company or an agent in the real estate business. Wholesalers are a source of information about the strengths and weaknesses of the retailers.

- (ii) **Media habits:** The retailers, news agents and cable operators have their fingers on the pulse of the media habits of the public, and the service firm should be astute enough to tap this source. They are much updated on which TV channels are watched by which segment of viewers.
- (iii) **Entry of a new competitor, brand or the practice of a new marketing method or promotion:** The retailers, wholesalers and agents are also the most important sources for any changes or entry in the composition of competitors. If a new brand or service product enters the market, the service firm could be alerted by its distribution chains. Similarly, if a competitor tries out a new promotion scheme and if it happens to be effective (or ineffective, as the case may be) the service firm would be better off being warned than taken by surprise. For example, in the fast growing cellular phone services, the effectiveness of one competitor's promotion scheme is tracked by others.

**Example:** Wal-Mart was in possession of a large cache of information about customers through scanning of bar codes of goods purchased through its retail stores. This was eagerly sought to be accessed by large FMCG companies like Unilever and Procter and Gamble.

The service marketer avoids the use of middlemen like dealers, stockists, warehouses and wholesalers, etc., because of the intangibility factor. Service retailing would entail servicing the consumer with information or the service itself. Thus, the authorized sales outlets of a mobile phone service provider would keep not only the SIM cards but also handsets, while handling bill payments, enquiries, etc.

2. **Promotion Flow:** While the service firm does 'external marketing' to its customers using the mass media or through direct marketing, the channel or the intermediaries are an essential route for promotional information to travel from the former to the latter. The service firm uses the channel to implement its 'push' and 'pull' promotion strategy meant for the intermediaries and the external customers respectively. The channel is also the source of information on the effectiveness of the promotions.
3. **Pre-Sales Service:** It is thanks to the channel members that the manufacturers or the service firms have been able to reduce the number of contacts with the customers and concentrate on their core offers. The channel members and other facilitators take part in other marketing activities preceding sales like pricing, packaging, marking and assembling goods to suit the final consumer.

### 5.2.3 Disadvantages, Drawbacks / Challenges in Distributing Services through Electronic Channels

**Q5. What are the Disadvantages, Drawbacks/ Challenges in Distributing Services through Electronic Channels?**

*Ans. :*

The service principals face the following problems in distributing services through electronic channels:

1. customers are active and they must be enticed.
2. Insufficient control of e-environment.
3. Price competition.
4. Inability to customize with highly standardized electronic services.
5. Inconsistency due to customer involvement.
6. Changes needed in consumer behavior.
7. Security concerns.
8. Competition from widening geographies.

### 1. Customers are active not passive and must be enticed

Traditional advertising media such as magazines consider the customer a passive receiver of their messages. A customer reading an article is most likely to see the advertisement. But the user of the web is different.

The aim of advertising should be to educate, entertain and entice the customer. By reading the marketer's information, customer must know the benefits of services clearly. So, "permission-based marketing" is a new method used to attract customers to websites. The services firm designs games, offers prizes, creates contests and sends customers to websites. This helps the advertisers build relationships with customers.

### 2. Lack of control of the electronic equipment

Electronic equipment are used in an unregulated medium. Care should be taken to separate the irrelevant, unwanted material from the useful content. For example, advertising for banking services should be separated from the numerous advertisements for 'balding concealment devices' and 'quick weight loss programmes'. In print media, the advertiser can request for right positioning. Such requests are not possible on the internet.

### 3. Price competition

It is difficult to compare features and price of services. But the internet makes it simple for customers to compare prices for a wide variety of services. For example, priceline.com allows customers to name their prices for a service such an airline ticket. So, customers at present, have the ability to bid on prices for services. Online services enable customers to download hundreds of service offerings along with particulars. So, the service providers encounter challenges in the form of price competition.

#### 4. **Inability to customize with highly standardized electronic devices**

It is very difficult to customize the services by using highly standardized electronic services. When electronic media is present, customers cannot directly deal with the service provider and raise points for clarification. The reaction of the audience to the message presented by an electronic vehicle may not always be effective. People may talk among themselves, laugh and criticize. Only two-way video can control the behavior of receivers.

#### 5. **Inconsistency due to customer involvement**

Electronic channels minimize the inconsistency from employees or providers of services. The customer produces the service himself using the technology. While doing so, if the technology is not user friendly, it may lead to errors or frustration. Using a website for example is not easy as it calls for familiarity with that technology. Moreover, the difficulty encountered by online services is that most customers do not have computers.

#### 6. **Changes are required in consumer behavior**

When a consumer enters a retail store, he can be motivated easily to buy the service. It is because the behavior of customer can be studied and the customer interaction can be modified to instill confidence in him. But for a customer purchasing a service through electronic channels, the method of interaction is different.

While using electronic channel, considerable changes are required in some aspects – the willingness to search for information, the willingness to perform some aspect of the services themselves, the acceptance of different levels of service, etc. But effecting a behavioral change is not easy. So, service marketers should motivate customers by bringing about changes in the long established pattern of behavior.

#### 7. **Security concerns**

Security of information is a key issue while using electronic channels. This is the major issue confronting the marketers who use electronic channels. Many customers are reluctant to give credit card numbers on the web and internet.

Recently, Adam Cohen has outlined reasons for customer reluctance to use the internet.

They are:

- someone might steal your identity
- you may reveal information about yourself in cyber-space
- personal information that we give to a website might be exploited
- you may enter your credit card number on a fake website
- A stranger may use your computer to spy on you
- you may have a cyber stalker.

#### 8. **Global Competition**

With the advent of electronic channels, services can be purchased from service firms located anywhere in the world. The fact that services could not be transported is no longer valid because of electronic channels. Virtually, all financial services can be bought from institutions in any area. Since customers have unlimited choice among the providers, services are not protected from competition.

#### **Challenges in Services Marketing in India**

**Formidable services marketing adversaries :** In many ways, most of business today are doing a lousy job of marketing. The cost of capturing customers continues to rise as buying processes become more complex and selling cycles lengthen. At the same time, customer's loyalty is eroding-on an average a U.S.-based company loses half of its customers in five years. Forced by the changing expectations of customers and competitive posturing, most companies expect that one-third of their sales over the next three to five years will

come from new services and line extensions. Yet one –half of new offering launched fail to meet business goals. And two- thirds of new offering ideas never achieve market success. So currently above 50 to 65 cents out of every marketing dollar invested in new offerings is wasted.

The above marketing challenges are formidable enough and apply generically to any and all organizations no matter what they develop, sell and deliver. However services marketers face some additional challenges that further confound the problem.

1. **Services are intangible:** Services are something that can be bought and sold but can't be dropped on your foot. The challenge of dealing with the added complexity of intangibility alone raises the bar.
2. **Services are performed:** Services are delivered live, in real time, usually at the customer's location. In many instances, products are involved, but it is the service provider who is on stage. The customer's perceptions are based upon the actual actions of the services provider.
3. **Goals:** The goal of performing services is unique to each customer and more complicated. Although the process of delivering the service, such as on-site equipment repair or systems integration, may be the same, the successful service provider makes the experience unique to the specific customer. The actual process of performing the service may stay the same, but variation is required to meet the uniqueness of the customer and the situation. The services offering are personalized.
4. **Customer involvement:** With services, the customer often is involved in the service performance. In many cases, the service is performed up close and personal. Because of this, the customer often is involved in the actual performance. Each customer interprets things differently. Since the performer is right there, on stage, he is oft subject to special requests that may not be a part of the original agreement.

### 5.3 PRICING METHODS FOR SERVICES

#### Q6. What are the Pricing Methods for Services?

*Ans :* (Dec.-19, May-19, Imp.)

#### Meaning of Price

Price is the amount we pay for goods, services or ideas. The term price is known by a variety of names in different sectors of the economy. For example, price is known as fare in the transport sector; fee in education; rent in real estate and in certain services it is known as charge. Generally speaking, the price is the exchange value between the seller and buyer. So, price is the money charged by a marketer for his product or service. For the marketer, price covers the total market offering. The ultimate user considers price as a sacrifice of his purchasing power. For the buyer, it stands for quality and quantity of the service bought.

Price is the source of revenue and a prime determinant of profit for the service provider. In the service sector, price reflects the nature of relationship between customer and provider.

#### Pricing of services

Pricing is a vital area in marketing. Price is one of the significant elements in the marketing mix. It is the sole and an important element in the marketing mix of a firm that brings revenue to the business. Organizations should use a sophisticated approach to pricing. While pricing the services, due regard should be given to shifts in demand, the rate at which supply can be expanded, prices of available substitutes, the price – volume relationship and the availability of future substitutes. Service companies must understand how customers perceive prices of services.

#### Methods of Pricing

Pricing decisions in manufacturing industry are usually based on the tangible items, i.e., cost of raw material, bought in components, machine rates, labor costs etc. In service industry which is largely non-asset based, decisions generally have to be made on intangibles. There are distinct differences



between the pricing procedures of different types of service industry, depending on the type of activity in which they are engaged.

### A) Cost-Based Pricing

In the case of goods, the prices are often based on the cost of production. For example, the price of petrol or diesel in India is based on the cost of oil in the international markets. Similarly, in the case of services, the cost-based pricing serves as the basic or starting point for the services. Cost-based prices are calculated based on certain accumulation of the accounting data. The usual components of costs are:

1. **Variable Cost:** Consisting of direct materials and direct labor and consumables. These are directly attributable to each unit of product or service.
2. **Fixed Costs:** Employee costs, marketing costs of advertising, and sales promotion and distribution costs. These are not directly attributable to the product or service but have to be incurred nonetheless.
3. **Financial Costs and Profits:** Consisting of depreciation, interest, and return on investment.

Situations under which Service Prices are based on Costs

1. When the service is introduced for the first time and there are no other references for price fixing.
2. When the number of competitors in market is limited to one or two.
3. In the case of unusual work, or work whose content is difficult to pre-estimate, the service provider and the client may come to a mutual agreement on the basis of the cost of the effort made by the service provider.

### Advantages of Cost-based Pricing

1. Essentially a simple model to follow in pricing decisions, it can be adopted by entrepreneurs,

small-scale service providers like restaurant owners and leisure and tourism-oriented professionals like travel agents, tour operators, etc.

2. Prices are easy to calculate and especially in services, where the offer has to be tailored to the individual needs of customers, it is easier to empower price decisions for services.
3. The predictive nature of the method helps the service marketer to better plan his resources and potential. Service marketer does not have too many variables affecting his plan outlay-and therefore can look forward to realistic forecasts. With cost-oriented pricing method, the service marketer, like a travel agent, has a better knowledge of his earnings and expenditures.
4. Cost-based pricing is adopted when the precise nature of the service that will actually be provided is not known at the outset or its details and components, etc., are unknown. For example, arranging for a conference or an event to bring doctors and surgeons for a pharmaceutical company. In this case, an agreement is made that the final price will be based in some way on costs.
5. A service provider is allowed by many professional associations to increase prices beyond those originally agreed in his estimate - on the basis of the actual costs incurred.

### Limitations of Cost-Based Pricing

1. Estimation of variable cost of a service is difficult. For example, in the case of the service provided to a hotel room occupant or the cost of flying a passenger, the variable cost is difficult to measure. Without reference to the variable cost, the total cost estimation may be even more difficult.
2. The utility of services incurring the same costs may not be the same for the customer. For example, changing of the zipper of a trouser and changing of the zipper on a cloth handbag may involve the same amount of effort on the part of the mender. However, if

charges are Rs. 25 in the case of trouser, the customer would happily pay this, while in the case of handbag, the customer may think this to be excessive, because the original cost of the trouser was about Rs. 750 while that of the handbag was only Rs. 100. Thus, the service provider may be able to charge even Rs. 40 in the case of a trouser but not more than Rs. 15 for a handbag.

3. While the service provider may be aware of the cost structure, the customers may not be aware of it; hence, the customers may be averse to paying the price. For example, in a city there may be an expensive movie theatre very near the railway station. While it costs to park a car at the railway station, it may cost Rs. 25 to park the car in the basement of the movie theatre. To the customer, it does not make sense to pay five times the amount for the same service, while for the parking lot franchisee, this is the minimum that he can charge in order to pay the rental to the cinema hall.
4. Since, most of the service offers are usually not totally comparable, the utility and cost comparison based on cost-based prices is confusing to the customers.

### **B) Competitor-based Pricing**

The competition could be from firms offering the same services fulfilling similar needs, different services fulfilling similar needs or similar services fulfilling different needs.

#### **1. Going Rate Pricing**

This is used in those services where cost levels are difficult to establish, and a going rate is preferred. In one street a cluster of restaurants ('Khau gali' and 'Chowpatty' in Mumbai, 'Chhappan Dookaan' and 'Sarafa' in Indore, 'Paranthe wali Gali' in Delhi, etc.) serve basically the same fare at the same prices. The same is true for apparel stores, electronics or books in one street ('Fashion Street' and 'Heera Panna' in Mumbai). Charging a going rate is an easy way to avoid calculation of costs.

#### **2. Sealed-Bid Pricing**

This is the system of tenders and quotations where bids are received from service providers. Thus housekeeping, restaurant and canteen contracts, security services, fleet operations, etc., are usually awarded on the basis of predetermined specification fulfillment and their offer price. The appropriate price and therefore the provider are chosen.

#### **3. Pricing below the Competition**

Here the new entrant service provider will price his offers below the competition with the full intention of increasing his market share at the time of consideration. Thus, an airline that intends to slash its prices will definitely acquire more customers trading-off against profitability. The danger to this approach is that the service marketer might price himself out of business or might invite price retaliation. This will increase commoditization of the service, make customers very price sensitive and may forever remove concepts of value and brands. The size of the market actually comes-down. Often, cash discounts are offered. Certain service providers, like discount retailers, base their lower-than-the-competition price on low mark-up, high volume and minimal service.

#### **4. Pricing above the Competition**

This kind of pricing works only for premium or very distinctive services. If the target market is class (foreign banks, high-end boutiques like Sheetal, Concorde aircraft flights, up-market restaurants, etc.) as opposed to mass, then this pricing method works. But if there is a general recession, then above-the-market pricing is unsustainable.

### **C) Pricing and Demand/Demand Oriented Pricing**

Demand oriented pricing is a pricing strategy approach whereby a firm sets prices after researching consumer desires and ascertaining the range of prices acceptable to the target market. This method of pricing is a perceived value pricing strategy that may

be implemented with differential pricing tactics. The product or service is priced according to the benefits perceived by the customers. These may be estimated using in-house data or may be developed with the help of market research such as group interviews where the members' willingness to pay the suggested price is evaluated.

**1. By Customer:** For the same product or service different prices are offered to different groups. For example,

- i) Indian Airlines charges 50 percent of normal fare for all types of journeys in economy class on domestic sectors of Indian Airlines from persons who have completed the age of 65 years on the date of travel and who are residents of India.
- ii) Museums and transport services offer lower rate for children and senior citizens.

**2. By Product or Service**

Different prices are charged for different versions. There is frequently little or no cost difference in the different versions. For example, The Airlines capitalize on the difference between the price insensitive business traveler who requires flexibility and the mass of holiday makers whose demand for service is established well in advance.

**3. By Location**

In this deciding factor is the place utility rather than cost. Customer's income will be a constraining factor in making a choice. For example,

- i) Front rows in a concert cost more than the last rows.
- ii) Rooms in a hotel are all the same but some have good scenic view of ocean side or swimming pool. These rooms are priced high than others.
- iii) In a movie theatre the front row is cheap whereas balcony is costliest.

**4. By Time:** The prices vary by:

- i) Season
- ii) Day of the week
- iii) Time of the day

The combination of perishability and fluctuating demand characteristics offers service planning pricing challenges to service executives. Time sensitivity offers when demand varies at different times but the service product is not storable. Time differentials involve price variations that depend on when the service is consumed. For example,

- i) During off season, many travel resorts and hotels offer non-peak rates.
- ii) Many hotels offer weekend discounts.
- iii) Restaurants offer cheaper meal prices in the early evening prior to high demand periods or cheaper drinks during the 'happy hour'.
- iv) Cell phone operators charge different rates for peak hours and non-peak hours.
- v) MTNL charges different rates at different time for long distance calls.

**5. By Quantity**

The price is set according to quantity used or volume purchased. This pricing structure allows the service firms to predict future demand for its services. For Examples:

- i) The hotels offer corporate discounts to firms whose executives stay at that hotel over a period.
- ii) Railways offer special prices for season tickets (pass holders).
- iii) Special discounted prices for monthly parking at parking places.
- iv) Use of library facilities - AIMA library charges Rs. 50 per day whereas by becoming a member one can use the library for Rs. 400 per year.

### 5.3.1 Pricing Strategies that Link to the Four Value Definitions

#### Q7. What are the Pricing Strategies that Link to the Four Value Definitions?

*Ans :*

Describe the approaches to services pricing that are particularly suited to each of the four value definitions. Exhibit presents research approaches to setting prices.

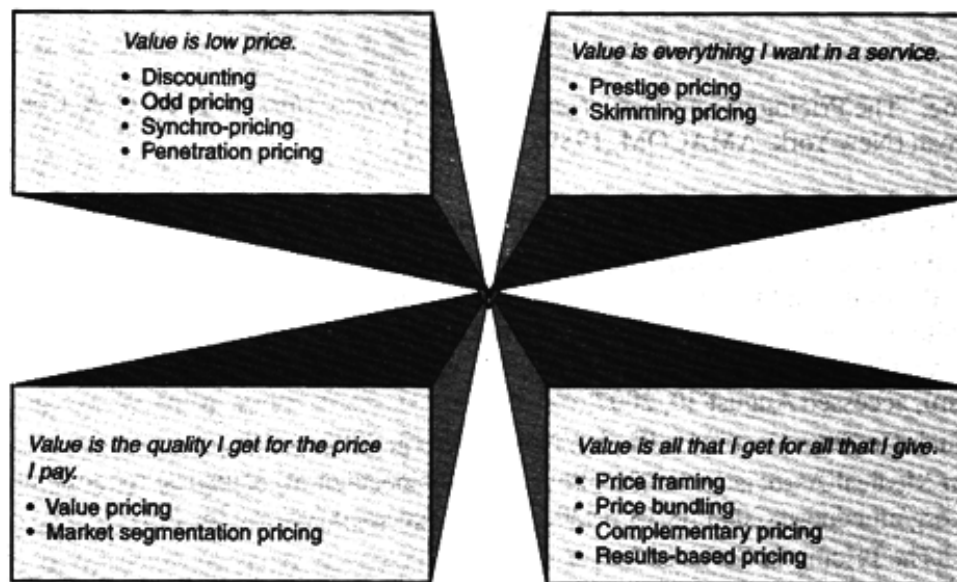


Fig. : Summary of service pricing strategies for four customer definitions of value

#### A) Pricing Strategies When the Customer Means "Value Is Low Price"

When monetary price is the most important determinant of value to a customer, the company focuses mainly on price. This focus does not mean that the quality level and intrinsic attributes are always irrelevant, just that monetary price dominates in importance. To establish a service price in this definition of value, the marketer must understand to what extent customers know the objective prices of services in this category, how they interpret various prices, and how much is too much of a perceived sacrifice. These factors are best understood when the service provider also knows the relative dollar size of the purchase, the frequency of past price changes, and the range of acceptable prices for the service. Some of the specific pricing approaches appropriate when customers define value as low price include discounting, odd pricing, synchro-pricing, and penetration pricing (Figure).

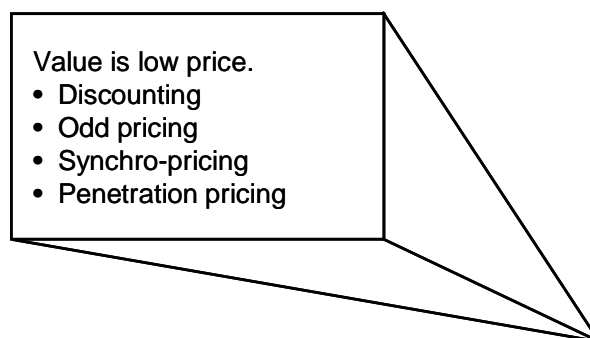


Fig. : Pricing strategies when the customer defines value as low price

### 1. Discounting

Service providers offer discounts or price cuts to communicate to price-sensitive buyers that they are receiving value. Colleges are now providing many forms of discounting to attract students. Discount pricing has become a creative art at other educational institutions. The University of Rochester offered a \$5,000 grant to all New York State residents enrolling as freshmen. Miami University of Ohio now lists only one tuition for all students (both in-state and out-of-state), but offers a discount to in-state students. The end result is that each group of students pays the same as before, but the perception is that in-state students get a discount.

### 2. Odd pricing

Odd pricing is the practice of pricing services just below the exact dollar amount to make buyers perceive that they are getting a lower price. Dry cleaners charge \$2.98 for a shirt rather than \$3.00, health clubs have dues priced at \$33.90 per month rather than \$34, and haircuts are \$9.50 rather than \$10.00. Odd prices suggest discounting and bargains and are appealing to customers for whom value means low price.

### 3. Synchro-Pricing

Synchro-pricing is the use of price to manage demand for a service by capitalizing on customer sensitivity to prices. Certain services, such as tax preparation, passenger transportation, long-distance telephone, hotels, and theaters, have demand that fluctuates over time as well as constrained supply at peak times. For companies in these and other industries, setting a price that provides a profit over time can be difficult. Pricing can, however, play a role in smoothing demand and synchronizing demand and supply. Time, place, quantity, and incentive differentials have all been used effectively by service firms.

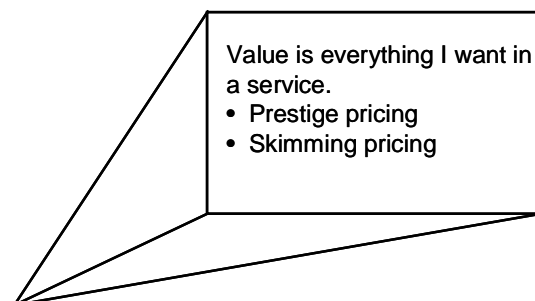
### 4. Penetration Pricing

Penetration pricing is a strategy in which new services are introduced at low prices to stimulate trial and widespread use. The

strategy is appropriate when (1) sales volume of the service is very sensitive to price, even in the early stages of introduction; (2) it is possible to achieve economies in unit costs by operating at large volumes; (3) a service faces threats of strong potential competition very soon after introduction; and (4) there is no class of buyers willing to pay a higher price to obtain the service. Penetration pricing can lead to problems when companies then select a "regular" increased price. Care must be taken not to penetrate with so low a price that customers feel the regular price is outside the range of acceptable prices.

### B) Pricing Strategies When the Customer Means "Value Is Everything I Want in a Service"

When the customer is concerned principally with the "get" components of a service, monetary price is not of primary concern. The more desirable intrinsic attributes a given service possesses, the more highly valued the service is likely to be and the higher the price the marketer can set. Figure shows appropriate pricing strategies.



**Fig. : Pricing strategies when the customer defines value as everything wanted in a service**

#### 1. Prestige Pricing

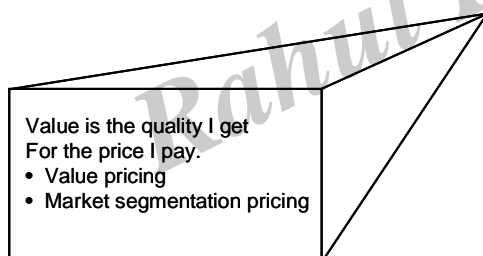
Prestige pricing is a special form of demand-based pricing by service marketers who offer high-quality or status services. For certain services—restaurants, health clubs, airlines, and hotels—a higher price is charged for the luxury end of the business. For example, for hotel guests who crave pampering, many chains are offering club floors that add high-end amenities into their offerings for large price increases.

## 2. Skimming Pricing

Skimming, a strategy in which new services are introduced at high prices, is an effective approach when services are major improvements over past services. In this situation, customers are more concerned about obtaining the service than about the cost of the service, allowing service providers to skim the customers most willing to pay the highest prices. Services that are related to anti-aging, such as Botox injections and new forms of laser liposuction, often are introduced at high prices, thereby attracting customers who are willing to pay more to obtain the services in the short term rather than wait until a later time when the prices might be reduced.

### C) Pricing Strategies When the Customer Means "Value Is the Quality I Get for the Price I Pay"

Some customers primarily consider both quality and monetary price. The task of the marketer is to understand what quality means to the customer (or segments of customers) and then to match quality level with price level. Specific strategies are shown in Figure.



**Fig. : Pricing strategies when the customer defines value as quality for the price paid**

#### 1. Value Pricing

The widely used term value pricing has come to mean "giving more for less." In current usage, it involves assembling a bundle of services that are desirable to a wide group of customers and then pricing them lower than they would cost alone. Taco Bell pioneered value pricing with a \$0.59 Value Menu. After sales at the chain rose 50 percent in two years to \$2.4 billion, McDonald's and Burger King adopted the value pricing practice.

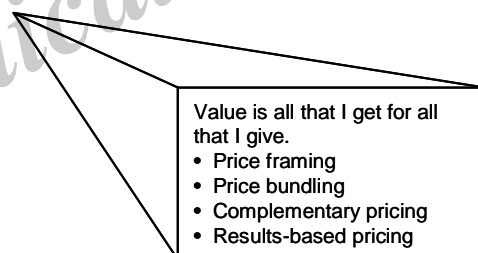
## 2. Market Segmentation Pricing

With market segmentation pricing, a service marketer charges different prices to groups of customers for what are perceived to be different quality levels of service, even though there may not be corresponding differences in the costs of providing the service to each of these groups. This form of pricing is based on the premise that segments show different price elasticities of demand and desire different quality levels.

### Q8. Pricing Strategies when the customer means "Value Is All That I Get for All That I Give".

*Ans :*

Some customers define value as including not just the benefits they receive but also the time, money, and effort they put into a service. Figure illustrates the pricing strategies described in this definition of value.



**Fig. : Pricing strategies when the customer defines value as all that is received for all that is given**

#### 1. Price Framing

Because many customers do not possess accurate reference prices for services, services marketers are more likely than goods marketers to organize price information for customers so they know how to view it. Customers naturally look for price anchors as well as familiar services against which to judge focal services. If they accept the anchors, they view the price and service package favorably.

#### 2. Price Bundling

Some services are consumed more effectively in conjunction with other services; other services accompany the products they support

(such as extended service warranties, training, and expedited delivery). When customers find value in a package of services that are interrelated, price bundling is an appropriate strategy. Bundling, which means pricing and selling services as a group rather than individually, has benefits to both customers and service companies.

Customers find that bundling simplifies their purchase and payment, and companies find that the approach stimulates demand for the firm's service line, thereby achieving cost economies for the operations as a whole while increasing net contributions. Bundling also allows the customer to pay less than when purchasing each of the services individually, which contributes to perceptions of value.

### 3. Complementary Pricing

Services that are highly interrelated can be leveraged by using complementary pricing. This pricing includes three related strategies—captive pricing, two-part pricing, and loss leadership. In captive pricing, the firm offers a base service or product and then provides the supplies or peripheral services needed to continue using the service. In this situation the company could off-load some part of the price for the basic service to the peripherals.

### 4. Results-Based Pricing

In service industries in which outcome is very important but uncertainty is high, the most relevant aspect of value is the result of the service. In personal injury lawsuits, for example, clients value the settlement they receive at the conclusion of the service. From tax accountants, clients value cost savings. From trade schools, students most value getting a job upon graduation. From Hollywood stars, production companies value high grosses. In these and other situations, an appropriate value-based pricing strategy is to price on the basis of results or outcome of the service.

## 5.4 PROMOTION STRATEGIES FOR SERVICES

### Q9. Discuss about Promotion Strategies for Services.

*Ans :*

(May-19)

Promotion consists of the following major areas of marketing: advertising, public relations, sales promotion, personal selling, word of mouth and direct mail. These areas are called the promotion mix or the communication mix. The service marketer can use a blend of all of these to achieve his communication and other goals. Servicescapes can be defined as the environment in which the service is assembled and in which the seller and customer interact, combined with tangible commodities that facilitate performance or communication of the service. It was understood by marketers that the immediate environment in which service delivery takes place has a great role to play in enhancing the quality of the service experience and encounter. They therefore went all out to manage the Servicescapes.

### Promotional Strategies of Services

The communication mix consists of advertising, public relations, sales promotion, personal selling, word-of-mouth and direct marketing.

#### 1. Advertising

The word 'advertising' is derived from the Latin word *advertere*, meaning 'to change the mood of the people'. Indeed, advertising does resemble a mood elevator. It is one of the most important communication techniques of mass or impersonal communication. But it has very specific goals, too.

Advertising goals are necessary not only to justify the advertising expenditure, but also to vindicate the art and science bases of advertising. Achievement of the goals would confirm the effectiveness of advertising as a communication tool.

### Goals of Advertising

- (i) **Awareness Goals:** Advertising seeks to make consumers aware of the service offer, its benefits and the experience. The awareness could also be quantified and tangibly achieved by measuring it before and after the campaign. The advertiser seeks to increase the customer's knowledge about the service offer and the messages are directed at the cognitive (having the ability to recognize) part of his brain.

Advertising is used for positioning of the service offer in the minds of the consumers by effectively differentiating it from competition.

- (ii) **Behavioural Goals:** Consumers have attitudes of favourable and unfavourable disposition towards brands and services. Advertising seeks to change the attitude of the consumers towards a favourable disposition.

- (iii) **Sales Goals:** The advertiser might only need sales generation and can ask an advertising agency to devise a communication campaign to help generate sales. The problem with achieving this goal and claiming credit for this achievement is two-fold:

The lagged effect that advertising has on sales. People do not go to buy the service synchronized with the advertising campaign; nor do they stop buying a service with the end of a campaign.

Other marketing mixes like new products, distribution, pricing and packaging might contribute to sales.

Advertising is solely dependent on media to carry its messages. Some popularly-used media are cinema, TV, newspapers, magazines, outdoor (hoardings or billboards), brochures, pamphlets, direct mail, telephone and posters.

### 2. Public Relations

Public relations can be defined as:

"It is the planned and sustained effort to establish and maintain goodwill between an organisation and its 'publics'."

#### — British Institute of Public Relations

The 'publics' constitute all those people and organisations that have a stake in the company (the 'stakeholders'). They include shareholders, employees, governments (local or central), opinion leaders of society, the media, customers (present and potential), financial institutions, suppliers, etc.

Like most other communication programmes, public relations should also adhere to objective specifications, goal settings, deciding on the mix of PR activities and implementing them in an integrated way while evaluating results.

#### Tasks of PR

- Maintaining or enhancing image;
- Supporting other communication activities like advertising, personal selling, direct mail, etc.
- Influencing publics;
- Reinforcing positioning;
- Spearheading certain events like Annual General Body Meetings (AGM), press conferences, etc.
- Bringing out annual reports, magazines and house journals;
- Troubleshooting.

#### Tools of an Effective PR Design

- Publications in the form of press releases, house journals, posters, articles, annual reports, brochures, etc.
- Holding events like AGM, press conferences, seminars, conferences, conventions and congresses, etc.



- Investor relations programmes;
- Planting of stories to enhance media coverage;
- Conduct of trade shows, exhibitions;
- Sponsoring of social events, charities and community projects.

### 3. Sales Promotion

Sales promotions are incentives tools used to temporarily boost sales. They are targeted at three types of audiences:

- (i) **Customers:** When the service marketer is keen on improving on the flat sales graph, he can make the consumer interested in his offer by various schemes that have a short tenure. These are called consumer promotions and the 'pull' factor consists of:
- (ii) **Price-offs:** The same offer, for example, of a health club or fitness centre's service, is now available at a lower price.
- (iii) **Extra grammage:** There is more amount of offer by weight and volume at the old price. This is possible in those services having higher tangibility as in restaurants, souvenir shops, general and food retailing, etc.
- (iv) **Freebies:** These are free items bundled with the offer sale. They can be intra-brand.
- (v) **Coupons:** These can be exchanged for services or goods either free or at a discount. Coupons are also used to measure the effectiveness of advertising campaigns for sales goals.
- (vi) **Samples:** These are used to boost trials, especially in the introductory stages. These again might seem to be impossible in services.
- (vii) **Cash refunds:** This is used for loyalty programmes.

**(viii) Prizes:** This is in the form of lucky draws from purchases made. Retailers routinely use this promotion.

**(ix) Demonstrations:** This is used to introduce the customer to a new service (like ATM), make him knowledgeable about certain features and functions, etc.

**(x) Contests:** These are directed at the participative nature of customers and are used to increase the involvement of the customers.

### 4. Personal Selling

The high contact nature of services and the resultant interactions between service providers and customers make personal selling very effective and important as a communication tool. It is an effective tool of persuasion in those areas where the customer has difficulty in comprehending the service product (concept selling) and its benefits.

Personal contacts are used to create customers and then to build long-term relationships and for customer retention. It is possible to personalize the communication according to the customer. This may not be possible in mass communication. After a sales call has been closed, personal selling can be used to sell other services.

**Example:** Some of the service sectors that have been greatly benefited by personal selling are insurance, financial products from banks like credit cards, tour packages, medical services, etc.

Personal selling can be made effective in the following seven ways:

**Orchestration of the service purchase encounter:** The service encounter is managed to create the maximum positive impression on the mind of the customer. This can be done in the following ways:

Identify the needs and expectations of the customer: The insurance advisor should make a customer-need analysis and then

present his insurance products. Too often, the advisor/agent insists on hard-selling certain policies for which he might get a higher commission and for which the policy-holder might realize too late that he has not much use. It is no surprise that insurance agents are perceived very low in the social ladder.

Usage of appropriate technical and presentation skills: The customer should be left with full comprehension of the offer and a lasting impression of offer benefits.

### 5. Word of Mouth

The service industry is very vulnerable to referral and word-of-mouth promotion and communication - due to its intangibility factor.

**Example:** A satisfied customer will refer the services of a doctor to others while a dissatisfied diner will be negative about a restaurant and irate customers might resort to de-marketing of the particular offer, often unprompted.

There is a lot of research that bears out the effectiveness of personal recommendation through word of mouth. Services therefore benefit from the multiplier effect of positive recommendations - although negative experiences tend to be more damaging.

### 6. Direct Marketing

This is being increasingly adopted by service firms for their communication mix. The advantages over mass marketing are many:

**(i) Personalization:** Unlike communication for mass marketing, here personalisation of the message, method or technique of communication is possible. This would make the communication objective effective. The personalisation can be in the language used, levels of vocabulary and articulation, depth of conceptual understanding and extent of persuasion and media.

**(ii) Cost-effective:** It becomes prohibitively expensive for a small and medium service-marketer to use mass media for communication. Even if used, it may not suit his purpose in reaching his target audience, especially if they are a niche segment. Direct marketing enables the service marketer to be cost effective, that is, reaching his desired target audience with his limited resources.

**(iii) Instant feedback:** A major disadvantage of mass marketing is its inability to channel the feedbacks from customers for effective utilisation. Sincere feedbacks can be used by the service marketer in new product development as well as in the fine-tuning of service blueprints. This is possible in direct marketing where, in the service-and-selling encounter, the reactions of the customers are observed by the alert and sensitive direct marketer.

**(iv) Quality control:** In services, quality control is conducted by the customer. The customer keeps the specifications in his or her head. The customer compares the service experience to the expectations developed prior to the performance. In fact, customer expectations often change during the performance, adding to the complexity of the performance. When the services are improperly performed, apologies and reparation is the only means of recourse. A poor performance is usually discovered immediately.

**(v) Morale and skills:** The morale and skill of service performance is critical. They perform during moments of truth in real time at the customer's location. They must be willing and able to bend the rules where appropriate, are creative in varying customer situations and the accountable for profitability.

### 5.5 NEED FOR COORDINATION IN MARKETING COMMUNICATION

#### Q10. Explain the Need for Coordination in Marketing Communication.

*Ans :* (May-19)

#### Need for Coordination in Marketing Communication

Coordination in marketing communication refers to the integrating all tools of marketing communications and developing an integrated marketing communication approach for services marketing. Marketing communication is not what it used to be. In the past, customers received information about goods and services from a limited number of sources, often mass marketing sources such as television and newspapers. In this type of environment, it was not difficult for a marketer to convey a uniform brand image and to coordinate promises. However, today's consumers of both goods and services receive communications from a far richer variety of sources - targeted magazines, online sources, coupons, and a host of sales promotion tools. And consumers of services receive even more communications from sources such as servicescapes, customer service departments, and everyday service encounter interactions with employees. These vehicles add to the variety and volume of information about a particular brand or company, but also to the complexity of that information. If the messages conflict, confused company images and promises can result, leading to a difference between what customers expect based on the messages and what they receive in service delivery.

Any company that disseminates information through different channels needs to be concerned with integrating them so that the customer receives unified messages and promises about its offerings. Service companies must add to the traditional communications or promotion mix a concern about the ways that customers receive information about services through interactive marketing, or marketing between employees and customers

Services marketing is about promises - promises made and promises kept to customers. A strategic framework known as the services triangle reinforces the importance of people in the ability of firms to keep their promises and succeed in building customer relationships. The triangle shows the three interlinked groups that work together to develop, promote, and deliver services. These key players are labeled on the points of the triangle:

1. The company (or SBU or department or "management"),
2. The customers, and
3. The providers.

Providers can be the firm's employees, sub-contractors, or outsourced entities who actually deliver the company's services. Between these three points on the triangle, three types of marketing must be successfully carried out for a service to succeed.

Enhanced version of Service marketing triangle demonstrates that the customer of services is the target of three types of marketing communication.

1. External marketing communication extends from the company to the customer and includes such traditional communication channels as advertising, sales promotion, and public relations. Figure provides a review of basic principles of external marketing communication.
2. Interactive marketing communication involves the messages that employees give to customers through such channels as personal selling, customer service interactions, service encounter interactions, and servicescapes. While personal selling is a traditional communication vehicle and interactions with customer service departments of companies occur with goods as well as services, the other two forms of communication are unique to services. A service company must be sure that these interactive messages are consistent both among themselves and with those sent through external communications.

3. To do so, the third side of the triangle, internal marketing communications, must be managed so that communications from the company to employees are accurate, complete, and consistent with what the customer is hearing or seeing.

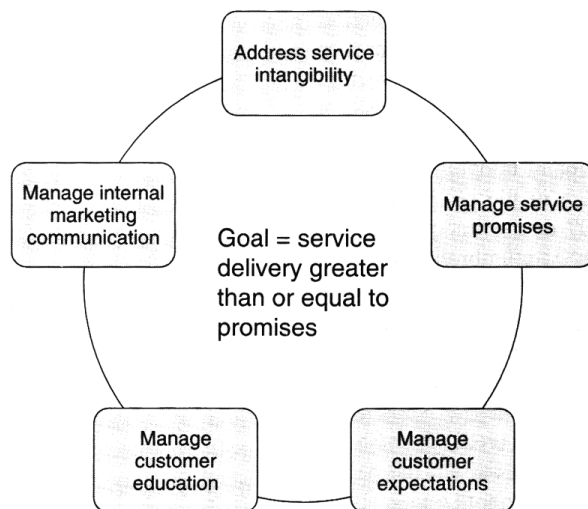
### 5.6 FIVE CATEGORIES OF STRATEGIES TO MATCH SERVICE PROMISES WITH DELIVERY

**Q11. What are the Five Categories of Strategies to Match Service Promises with Delivery?**

*Ans :*

(Sep.-20)

Figure shows the major approaches to overcome the service communication challenges that we just described. The goal is to deliver service that is greater than or equal to promises made, and all three sides of the triangle must be addressed to do so.



**Fig. : Five Major Approaches to overcome Service Communication Channels**

#### 1. Address Service Intangibility

Approaches to address service intangibility include advertising and other communication strategies that clearly communicate service attributes and benefits to consumers, and strategies designed to encourage word-of-mouth communication.

If service companies recognize the challenges they face due to intangibility, they can use selected strategies to compensate. In one way or another, each of the individual strategies we discuss here focuses on ways to make the message dramatic and memorable.

- (a) **Use Narrative to Demonstrate the Service Experience :** Many services are experiential, and a uniquely effective approach to communicating them involves story-based appeals. Showing consumers having realistic and positive experiences with services is generally more effective than describing service attributes, particularly because the attributes themselves are often intangible. Research has concluded that consumers with relatively low familiarity with a service category prefer appeals based on stories to appeals based on lists of service attributes.
- (b) **Present Vivid Information :** Effective service marketing communication creates a strong or clear impression on the senses and produces a distinct mental picture. One way to use vivid information is to evoke a strong emotion such as fear. Advertising that shows the harmful effects of smoking or the dangers of not wearing seat belts are typically very vivid. Vividness can also be achieved by concrete language and dramatization.
- (c) **Use Interactive Imagery :** One type of vividness involves what is called interactive imagery. Imagery (defined as a mental event that involves the visualization of a concept or relationship) can enhance recall of names and facts about service. Interactive imagery integrates two or more items in some mutual action, resulting in improved recall. Some service companies effectively integrate their logos or symbols with an expression of what they do, such as the Merrill Lynch bull—the bull symbolizes “growth, strength, optimism, and competence.

- (d) **Focus on the Tangibles** : Another way that advertisers can increase the effectiveness of services communications is to feature the tangibles associated with the service, such as showing a bank's marble columns or gold credit card. Showing the tangibles provides clues about the nature and quality of the service. The photo on page 493, which is an advertisement for the Sierra Club, features the tangible benefits of the club in saving the gray wolf from extinction. Showing the wolf itself communicates the benefits of the organization emphatically, far more clearly than if words alone were used.
- (e) **Use Association, Physical Representation, Documentation, and Visualization** : Leonard Berry and Terry Clark propose four strategies of tangibilization: association, physical representation, documentation, and visualization. Association means linking the service to a tangible person, place, or object, such as "being in good hands with Allstate." Physical representation means showing tangibles that are directly or indirectly part of the service, such as employees, buildings, or equipment. Documentation means featuring objective data and factual information. Visualization is a vivid mental picture of a service's benefits or qualities, such as showing people on vacation having fun. Our Strategy Insight shows how marketing communication icons can be used as tangibles.
- (f) **Feature Service Employees in Communi-cation** : Customer contact personnel are tangible representations of the service and are also an important second audience for services advertising. Featuring actual employees doing their jobs or explaining their services in advertising is effective for both the primary audience (customers) and the

secondary audience (employees) because it communicates to employees that they are important. Furthermore, when employees who perform a service well are featured in marketing communication, they become standards for other employees' behaviors.

- (g) **Use Buzz or Viral Marketing** : Buzz marketing, also called viral marketing, involves the use of real consumers to spread the word about products without (or without the appearance of) being paid by the company. Sometimes buzz marketing occurs simply because customers are avid fans of the service, and sometimes the company seeds customers with services or products. Chipotle Mexican Grill, a Denver-based company with nearly 600 outlets, avoids advertising and instead depends almost completely on the word-of-mouth communication its customers spread about its unique and tasty food. Chipotle's founder, M. Steven ELLS, makes giving away samples of its food (as well as satisfying customers) the basis for its strategy.
- (h) **Leverage Social Media** : Social media—interactive communication among customers on the Internet through such sites as MySpace, YouTube, and FaceBook—are becoming avenues for consumers to exchange information. More than half (55 percent) of teens online have a personal profile on a social networking site, and nearly half incorporate social networking into their daily lives. Some of this activity is directly related to decisions about products and services. More than half of respondents to a consumer study claimed that they used customer-generated media (CGM) to make or narrow decisions 23 percent to confirm decisions and 15 percent to make a top choice.

- (i) **Aim Messages to Influencers** : Improved technologies are now allowing companies to identify online influencers—those individuals with more connections than others and therefore more ability to influence others about services. Both researchers and research companies are developing technologies similar the BuzzMetric approach described earlier that can identify those people in a viral community who . most critical to receive brand messages. When identified, these individuals can be “seeded”—give services or service information, invited to participate in special events, and otherwise encourage c know and communicate about a service.
- (j) **Feature Satisfied Customers in the Communication** : Advertising testimonials featuring actual service customers simulate personal communications between people and are thereby a credible way to communicate the benefits of service. A successful 2004 advertising campaign for Blue Cross/Blue Shield of North Carolina featured real customers whose family members suffered medical crises that were handled successfully by the health insurance company. The testimonials were powerful and believable, particularly one featuring two parents and their cancer-surviving son, Davis. The campaign helped restore faith in the health insurance and generated positive word of mouth.
- (k) **Generate Word-of-Mouth through Employee Relationships** : Research shows that customer satisfaction with a service experience alone is not sufficient to stimulate word-of-mouth activity. However, when customers gained trust in a specific employee, positive word of mouth would result. In this research, trust was shown to be a consequence of three aspects of the employee-customer relationship: a personal connection between employees and customers, care displayed by employees, and employee familiarity with customers.

## 2. Manage Service Promises

In manufacturing physical goods, the departments that make promises and those that deliver them can operate independently. Goods can be fully designed and produced and then turned over to marketing for promotion and sale. In services, however, the sales and marketing departments make promises about what other employees in the organization will fulfill. Because what employees do cannot be standardized like physical goods produced mechanically, greater coordination and management of promises are required.

Managing service promises include following points:

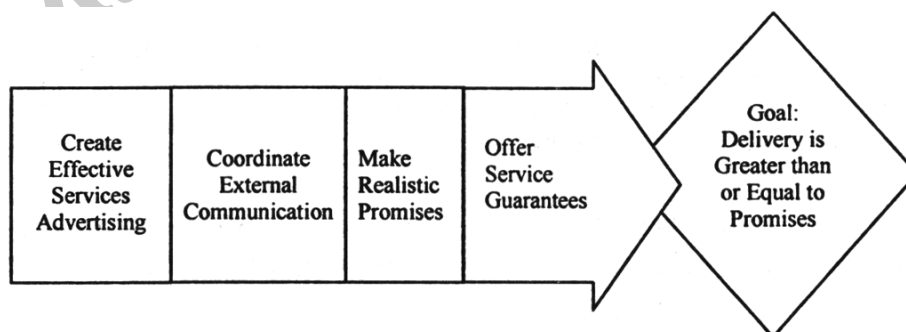


Fig. : Approaches for Managing Service Promises

- (i) **Create Effective Services Advertising:** One of the most critical ways that services promise are communicated through advertising. Intangibility makes services advertising different from product advertising and difficult for marketers. The intangible nature of services creates problems for consumers both before and after purchase. Before buying services, consumers have difficulty understanding them and coming-up with sets of services to consider. After buying services, consumers have trouble in evaluating their service experiences.

Banwari Mittal described the difficulties associated with intangibility by dividing it into five properties, each of which has implications for services advertising. In his view, intangibility involves:

- (a) **Incorporeal Existence:** The service product is neither made out of physical matter nor occupies physical space.
  - (b) **Abstractness:** Services are considered apart from any particular instances or material objects. Service benefits such as financial security, fun, or health do not correspond directly with objects, making them difficult to visualize and understand.
  - (c) **Generality versus Specificity:** Generality refers to a class of things, persons, events, or properties, whereas specificity refers to particular objects, people, or events.
  - (d) **Non-searchability:** Because service is a performance, it often cannot be previewed or inspected in advance of purchase.
  - (e) **Mental Impalpability:** Services are often too complex, multidimensional, and difficult to grasp mentally.
- (ii) **Coordinate External Communication:** For any organization, one of the most important yet challenging aspects of managing brand image involves coordinating all the external communication vehicles that send information to customers. These communication vehicles include:
- (a) **Advertising:** It is any paid form of non-personal presentation and promotion of a company's offerings by an identified sponsor. Dominant advertising vehicles include television, radio, newspapers, magazines, outdoor signage, and the Internet.
  - (b) **Websites:** They are the company's own online communication to customers. Often a disconnect exists between the look, feel, and content of a company's website and its advertising, usually because different parts of the company (or different advertising vendors) are responsible for creating these vehicles.
  - (c) **Sales Promotion:** It includes short-term incentives such as coupons, premiums, discounts, and other activities that stimulate customer purchases and stretch media spending. The fast-food industry, including McDonald's, Burger King, and Wendy's, offers premiums such as action figures that link the chains' offerings to current movies and television shows.
  - (d) **Public Relations:** It includes activities that build a favorable company image with a firm's publics through publicity, relations with the news media, and community events.
  - (e) **Direct Marketing:** It involves the use of mail, telephone, fax, e-mail, and other tools to communicate directly with specific consumers to obtain a direct response.
  - (f) **Personal Selling:** It is face-to-face presentation by a representative from the firm to make sales and build customer relationships. One way that personal selling and advertising are integrated in business-to-business companies is through the development of advertising materials that salespeople distribute to customers.
- (iii) **Make Realistic Promises:** The expectations that customers bring to the service affect their evaluations of its quality - the higher the expectation, the higher the delivered service to be perceived as high quality. Therefore, promising reliability in advertising is appropriate only when reliability is actually delivered. It is essential for a firm's marketing or sales department to understand the actual levels of service delivery

(percentage of times the service is provided correctly, or percentage and number of problems that arise) before making promises about reliability. To be appropriate and effective, communications about service quality must accurately reflect what customers will actually receive in service encounters.

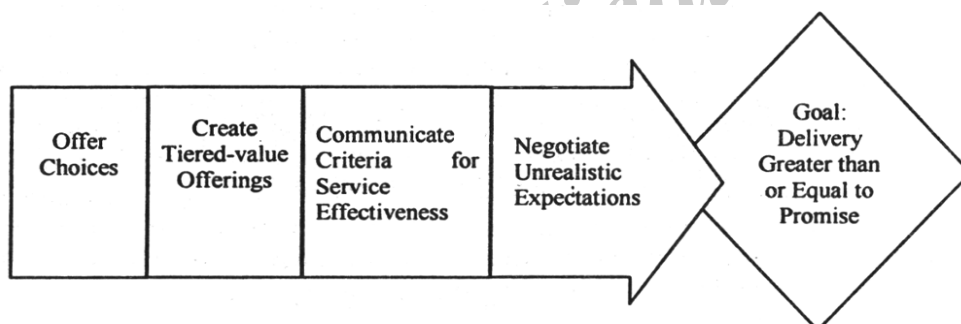
- (iv) **Offer Service Guarantees:** Service guarantees are formal promises made to customers about aspects of the service they will receive. Although many services carry implicit service satisfaction guarantees, the true benefits from them - an increase in the likelihood of a customer choosing or remaining with the company - come only when the customer knows that guarantees exist and trust that the company will stand behind them.

### 3. Manage Customer Expectations

Many service companies find themselves in the position of having to tell customers that service previously provided will be discontinued or available only at a higher price.

Service delivery has been cut back in many service industries, but few as dramatically as in the healthcare industry. Hospital patients now experience far shorter stays and fewer diagnostic procedures. Patients requiring psychotherapy are limited to six visits unless their doctors can substantiate in writing the need for more. Alcohol treatment is handled on an outpatient rather than inpatient basis.

Strategies for managing customer expectations are as follows:



**Fig. : Approaches for Managing Customer Expectations**

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

This strategy is effective in business-to-business situations, particularly in terms of speed versus quality. Customers who are time conscious often want reports, proposals, or other written documents quickly. When asked to provide a 10-page proposal for a project within three days, an architectural firm responded that it could provide either a 2-page proposal in three days or a 10-page proposal in a week. Its customer selected the latter option, recognizing that the deadline could be extended. In most business-to-business services, speed is often essential but threatens performance. If customers understand the trade-off and are asked to make a choice, they are likely to be more satisfied because their service expectations for each option become more realistic.



- (ii) **Create Tiered-Value Service Offerings:** Product companies are accustomed to offering different versions of their products with prices commensurate with the value customers perceive. Automobiles with different configurations of features carry price tags that not match their cost but instead their perceived value to the customer. This same type of formal bundling and pricing can be accomplished in services, with the extra benefit of managing expectations.

Credit card companies offer tiered-value offerings. American Express has multiple levels of credit card services based on the type of service provided- the traditional green card offers basic service features, the gold card additional benefits, and the platinum card still more. Two advantages of tiered offerings are:

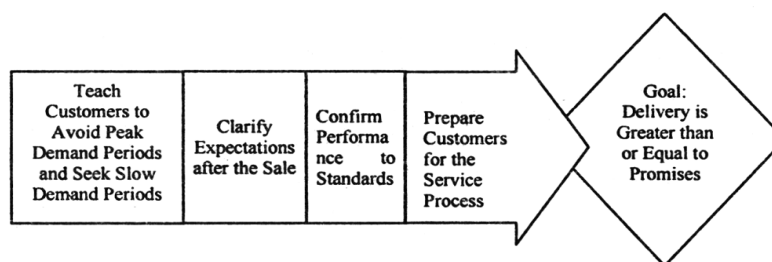
- (a) The practice puts the burden of choosing the service level on the customer, thereby familiarizing the customer with specific service expectations, and
- (b) The company can identify which customers are willing to pay higher prices for higher service levels.

- (iii) **Communicate the Criteria and Levels of Service Effectiveness:** At times companies can establish the criteria by which customers assess service. Consider a business customer who is purchasing market research services for the first time. Because market research is an expert service, it is high in credence properties that are hard for customers to judge. Moreover, the effectiveness of this type of service differs depending on the objectives the client brings to the service. In this situation, a service provider can teach the customer the criteria by which to evaluate the service. The provider that teaches the customer in a credible manner will have an advantage in shaping the evaluation process.

- (iv) **Negotiate Unrealistic Expectations:** Sometimes customers express service requests as they would be at their lowest bid. The service, they request for the price they are willing to pay, is unrealistic; they know it and the firm knows it also. It is, in effect, a starting point for discussion, not expected the end point. In these situations, successful service providers present their offerings in terms of value and not price alone. They also negotiate more realistic expectations.

#### 4. Improve Customer Education

Customers must perform their roles properly for many services to be effective. If customers forget to perform their roles, or perform them improperly, disappointment may result. For this reason, communication to customers can take the form of customer education.



**Fig. : Approaches for Improving Customer Education**

Improving customer education includes:

- (i) **Prepare Customers for the Service Process:** Customers of management consulting services purchase intangible benefits - marketing effectiveness, motivated workforces, culture change. The very fact that companies purchase these services usually indicates that they do not know

how to perform them alone. Many clients will also not know what to look for along the way to judge progress. In management consulting and other complex service situations, the effective provider prepares the customer for the service process and creates structure for the customer. At the beginning of the engagement, the management consulting firm establishes checkpoints throughout the process, at which times progress will be evaluated, and also leads the customer to establish objectives for project completion. Because customers do not know what that progress will look like, the consulting firm takes the lead in setting goals or criteria to be examined at those times.

**(ii) Confirm Performance to Standards and Expectations:**

Service providers sometimes provide service, even explicitly requested service, yet fail to communicate to the customer that it has been accomplished. These providers stop short of getting credit for their actions when they do not reinforce actions with communication about their fulfillment of the request. This situation may happen under one or more of the following conditions:

- (a) The customer cannot evaluate the effectiveness of a service.
- (b) The decision-maker in the service purchase is a person different from the users of the service.
- (c) The service is invisible.
- (d) The provider depends on others to perform some of the actions to fulfill customer expectations.

Customers are not always aware of everything done behind the scenes to serve them well. Most services have invisible support processes. The firm that explicitly communicates the guarantee

may be selected over others by a customer who is uncertain about the quality of the service. Making customers aware of standards or efforts to improve service that are not readily apparent can improve service quality perceptions.

**(iii) Clarify Expectations after the Sale:**

When service involves a hand-off between sales and operations, as it does in most companies, clarifying expectations with customers helps the service delivery arm of the company to align with customer expectations. Salespeople are motivated and compensated to raise customer expectations - at least to the point of making the sale - rather than to communicate realistically what the company can provide. In these situations, service providers can avoid future disappointment by clarifying what was promised as soon as the hand-off is made.

**(iv) Teach Customers to Avoid Peak Demand Periods and Seek Slow Demand Periods:**

Few customers want to face lines or delays in receiving services. In the words of two researchers, "At best, waiting takes their time, and at worst, they may experience a range of unpleasant reactions - feeling trapped, tired, bored, angry, or demeaned". In a bank setting, researchers tested three strategies for dealing with customer waits:

- (a) Giving customers prior notice of busy times,
- (b) Having employees apologize for the delays, and
- (c) Assigning all visible employees to serving customers.

Only the first strategy focuses on educating customers; the other two involve managing employees.

Researchers expected and confirmed that customers warned of a wait in line tended to minimize the negative effects of waiting to justify their decision to seek service at peak times. In general, customers given a card listing the branch's busiest and slowest times were more satisfied with the banking service. The other two strategies, apology and all-tellers-serving, reflected no effects on satisfaction. Educating customers to avoid peak times benefits both customers (through faster service) and companies (by easing the problem of over-demand).

## 5. Manage Internal Marketing Communication

The fourth major category of strategies necessary to match service delivery with promises involves managing internal marketing communications. Internal marketing communications can be both vertical and horizontal. Vertical communications are either downward, from management to employees, or upward, from employees to management. Horizontal communications are those across functional boundaries in an organization.

The various approaches for managing internal marketing communications are as follows:

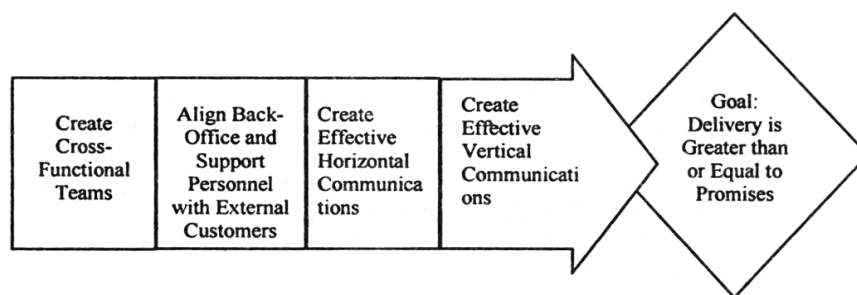


Fig. : Approaches for Managing Internal Marketing Communication

- (i) **Create Effective Vertical Communications:** Companies that give customer contact employees adequate information, tools, and skills allow them to perform successful interactive marketing. Among the most important forms of downward communication are company newsletters and magazines, corporate television networks, e-mail, briefings, videotapes, and internal promotional campaigns, and recognition programs. One of the keys to successful downward communication is keeping employees informed of everything that is being conveyed to customers through external marketing. Employees should see company advertising before it is aired or published and should be familiar with the website, mailings, and direct selling approaches used.

Upward communication is also necessary in closing the gap between service promises and service delivery. Employees are at the front-line of service, and they know - more than anyone else in the organization - what can and cannot be delivered. They know when service break-downs are occurring and, very often, why they are happening. Having open communication channels from employees to management can prevent service problems before they occur and minimize them when they do take place.

- (ii) **Create Effective Horizontal Communications:** Horizontal communication - communication across functional boundaries in an organization - facilitates coordinated efforts for service delivery. This task is difficult because functions typically differ in goals, philosophies, outlooks, and views of the customer, but the pay-off is high. Coordination between marketing and operations can result in communication that accurately reflects service delivery, thus reducing

the gap between customer expectations and actual service delivery. Integration of effort between marketing and human resources can improve the ability of each employee to become a better marketer. Coordination between finance and marketing can create prices that accurately reflect the customer's evaluation of a service. In service firms, all these functions need to be integrated to produce consistent messages and to narrow the service gaps.

**(iii) Align Back-Office and Support Personnel with External Customers through Interaction or Measurement:**

As companies become increasingly customer-focused, front-line personnel develop improved skills in discerning what customers require. As they become more knowledgeable about and empathetic toward external customers, they also experience intrinsic rewards for satisfying customers. Back-office or support personnel, who typically do not interact directly with external customers, miss-out on this bonding and, as a consequence, fail to gain the skills and rewards associated with it.

**(a) Interaction:** Companies are creating ways to facilitate the interaction between back-office and support personnel and external customers. For example, Weyerhaeuser sends hourly employees to customers' plants to better understand their needs. When actual interaction is difficult or impossible, some companies videotape customers in their service facilities during the purchase and consumption process to vividly portray needs and requirements of customers and to show personnel the support that front-line people need to deliver to those expectations.

**(b) Measurement:** When company measurement systems are established, employees are sometimes judged on the basis of how they perform for the next internal customer in the chain. Although this approach provides feedback in terms of how well the employees are serving the internal customer, it lacks the motivation and reward that come from seeing their efforts affect the end-customer. Federal Express has aligned internal personnel with the external customer using measurement.

**(iv) Create Cross-Functional Teams:** Another approach to improve horizontal communications to better serve customers is to involve employees in cross-functional teams to align their jobs with end-customer requirements. For example, if a team of telecommunications service representatives is working to improve interaction with customers, back-office people such as computer technicians or training personnel can become part of the team. The team then learns requirements and sets goals for achieving them together, an approach that directly creates communications across the functions.

## Short Question and Answers

### 1. Distribution Channel

*Ans :*

A distribution channel consists of a set of people or firms who are intrinsically involved in the transfer of goods or services from the producer to the end user. The end user could either be an individual consumer or an industrial consumer. A channel of distribution includes the producer of the goods and services, the consumer of the same and a series of intermediaries like wholesalers, dealers, retailers, agents, etc.

Place in case of services determine where is the service product going to be located. The best place to open up a petrol pump is on the highway or in the city. A place where there is minimum traffic is a wrong location to start a petrol pump. Similarly, a software company will be better placed in a business hub with a lot of companies nearby rather than being placed in a town or rural area.

### 2. Types of Intermediaries

*Ans :*

There are two types of channels at the disposal of the marketer:

- (i) **Direct distribution:** This is a channel that has no middlemen and consists of only the producer and the end user. The firm reaches directly to the consumer and the service industry mostly uses this method of distribution. Only those goods marketers who have strong finances and can afford to lock up a lot of their capital in inventory or whose products have high technology (hi-fi speaker and other audio equipment manufacturer Bose Corporation) adopt direct distribution. Thus a service firm can choose to go direct if it has well trained personnel, as in the case of hospitals, hotels and education services.
- (ii) **Indirect distribution:** This distribution consists of the producer, end consumer and at least one middleman or intermediary. For consumer and industrial goods distribution,

there is more than one intermediary while services have one middleman, the agent. Airlines use the indirect method, which includes travel agents.

### 3. Role of Intermediaries

*Ans :*

Intermediaries play the following roles:

**Information Flow:** The intermediaries like retailers, wholesalers, dealers, stockists, agents, buyers, etc., are important sources of information for the marketer. They are in touch with their respective customers, other traders and competitors and this information flows to the service marketer with careful management. The intermediaries are also one of the early warning systems for any of the following changes:

- (i) **Customer demographics and psychographics:** A retailer will come to know the changes in the customer profile in his catchments area, their spending capability, addresses, average family size, occupation, their lifestyles and attitudes etc. So will an agent for a life insurance company or an agent in the real estate business. Wholesalers are a source of information about the strengths and weaknesses of the retailers.
- (ii) **Media habits:** The retailers, news agents and cable operators have their fingers on the pulse of the media habits of the public, and the service firm should be astute enough to tap this source. They are much updated on which TV channels are watched by which segment of viewers.

### 4. Challenges in Services Marketing in India

*Ans :*

**Formidable services marketing adversaries :** In many ways, most of business today are doing a lousy job of marketing. The cost

of capturing customers continues to rise as buying processes become more complex and selling cycles lengthen. At the same time, customer's loyalty is eroding-on an average a U.S.-based company loses half of its customers in five years. Forced by the changing expectations of customers and competitive posturing, most companies expect that one-third of their sales over the next three to five years will come from new services and line extensions. Yet one-half of new offerings launched fail to meet business goals. And two-thirds of new offering ideas never achieve market success. So currently above 50 to 65 cents out of every marketing dollar invested in new offerings is wasted.

The above marketing challenges are formidable enough and apply generically to any and all organizations no matter what they develop, sell and deliver. However services marketers face some additional challenges that further confound the problem.

- (i) **Services are intangible:** Services are something that can be bought and sold but can't be dropped on your foot. The challenge of dealing with the added complexity of intangibility alone raises the bar.
- (ii) **Services are performed:** Services are delivered live, in real time, usually at the customer's location. In many instances, products are involved, but it is the service provider who is on stage. The customer's perceptions are based upon the actual actions of the services provider.
- (iii) **Goals:** The goal of performing services is unique to each customer and more complicated. Although the process of delivering the service, such as on-site equipment repair or systems integration, may be the same, the successful service provider makes the experience unique to the specific customer. The actual process of performing the service may stay the same, but variation is required to meet the uniqueness of the customer and the situation. The services offering are personalized.
- (iv) **Customer involvement:** With services, the customer often is involved in the service performance. In many cases, the service is

performed up close and personal. Because of this, the customer often is involved in the actual performance. Each customer interprets things differently. Since the performer is right there, on stage, he is oft subject to special requests that may not be a part of the original agreement.

## 5. Cost-Based Pricing

*Ans :*

In the case of goods, the prices are often based on the cost of production. For example, the price of petrol or diesel in India is based on the cost of oil in the international markets. Similarly, in the case of services, the cost-based pricing serves as the basic or starting point for the services. Cost-based prices are calculated based on certain accumulation of the accounting data. The usual components of costs are:

- (i) **Variable Cost:** Consisting of direct materials and direct labor and consumables. These are directly attributable to each unit of product or service.
- (ii) **Fixed Costs:** Employee costs, marketing costs of advertising, and sales promotion and distribution costs. These are not directly attributable to the product or service but have to be incurred nonetheless.
- (iii) **Financial Costs and Profits:** Consisting of depreciation, interest, and return on investment.

Situations under which Service Prices are based on Costs

- (i) When the service is introduced for the first time and there are no other references for price fixing.
- (ii) When the number of competitors in market is limited to one or two.
- (iii) In the case of unusual work, or work whose content is difficult to pre-estimate, the service provider and the client may come to a mutual agreement on the basis of the cost of the effort made by the service provider.

**6. Competitor-based Pricing**

*Ans :*

The competition could be from firms offering the same services fulfilling similar needs, different services fulfilling similar needs or similar services fulfilling different needs.

**(i) Going Rate Pricing**

This is used in those services where cost levels are difficult to establish, and a going rate is preferred. In one street a cluster of restaurants ('Khau gali' and 'Chowpatty' in Mumbai, 'Chhappan Dookaan' and 'Sarafa' in Indore, 'Paranthe wali Gali' in Delhi, etc.) serve basically the same fare at the same prices. The same is true for apparel stores, electronics or books in one street ('Fashion Street' and 'Heera Panna' in Mumbai). Charging a going rate is an easy way to avoid calculation of costs.

**(ii) Sealed-Bid Pricing**

This is the system of tenders and quotations where bids are received from service providers. Thus housekeeping, restaurant and canteen contracts, security services, fleet operations, etc., are usually awarded on the basis of predetermined specification fulfillment and their offer price. The appropriate price and therefore the provider are chosen.

**7. Pricing and Demand/Demand Oriented Pricing**

*Ans :*

Demand oriented pricing is a pricing strategy approach whereby a firm sets prices after researching consumer desires and ascertaining the range of prices acceptable to the target market. This method of pricing is a perceived value pricing strategy that may be implemented with differential pricing tactics. The product or service is priced according to the benefits perceived by the customers. These may be estimated using in-house data or may be developed with the help of market research such as group interviews where the members' willingness to pay the suggested price is evaluated.

**(a) By Customer:** For the same product or service different prices are offered to different groups. For example,

- (i) Indian Airlines charges 50 percent of normal fare for all types of journeys in economy class on domestic sectors of Indian Airlines from persons who have completed the age of 65 years on the date of travel and who are residents of India.
- (ii) Museums and transport services offer lower rate for children and senior citizens.

**(b) By Product or Service**

Different prices are charged for different versions. There is frequently little or no cost difference in the different versions. For example, The Airlines capitalize on the difference between the price insensitive business traveler who requires flexibility and the mass of holiday makers whose demand for service is established well in advance.

## *Internal Assessment (Mid Examinations)*

The pattern of Mid Exams or Continuous Internal Evaluation (CIE) prescribed by the JNTU-H as per the Regulations 2019 (R19) for all the semesters is as follows,

- There would be two Mid Exams or Continuous Internal Evaluation (CIE) for each semester,
  - The **I<sup>st</sup> Mid Term Examinations** would be conducted during the Middle of the Semester.
  - The **II<sup>nd</sup> Mid Term Examinations** during the last week of instructions.
- The Mid Exam I and II would have the same pattern of question paper which would carry **25 Marks** each and the time duration for conducting each Mid exam would be 120 min.
- The pattern of Mid Exam Question Paper would consist of two parts i.e., **Part-A** and **Part-B**.
  - **Part-A** consist of 5 compulsory questions each carries 2 marks (i.e  $5 \times 2 = 10$  marks).
  - **Part-B** consist of 5 questions out of which 3 questions should be answered, each question carries 5 marks (i.e  $5 \times 3 = 15$  marks).
- The average of the two Mid exams will be added with the 75 marks of External end examination which equals to 100 marks (i.e  $25 + 75 = 100$ ).

### **UNIT - I**

#### **Part - A**

1. Service marketing. (Refer Unit-I, SQA-1)
2. Services (Refer Unit-I, SQA-3)
3. 4 I's of Services (Refer Unit-I, SQA-4)
4. Service and Technology. (Refer Unit-I, SQA-6)

#### **Part - B**

1. Define Service Marketing. Explain the Components and Importance of Service Marketing. (Refer Unit-I, Q.No. 1)
2. Explain the Concepts of Services. (Refer Unit-I, Q.No. 3)
3. Distinguish between Goods and Services. (Refer Unit-I, Q.No. 6)
4. Explain about Services Marketing Mix. (Refer Unit-I, Q.No. 7)
5. What are the Challenges Faced by the Services Sector. (Refer Unit-I, Q.No. 10)
6. Write about Service and Technology. (Refer Unit-I, Q.No. 11)



**UNIT - II****Part - A**

1. Consumer buying. (Refer Unit-II, SQA-1)
2. Consumer Experience (Refer Unit-II, SQA-4)
3. Customer Perception. (Refer Unit-II, SQA-5)
4. Customer Satisfaction. (Refer Unit-II, SQA-6)
5. Customer feedback. (Refer Unit-II, SQA-9)
6. Service failures (Refer Unit-II, SQA-10)

**Part - B**

1. What are the stages of Consumer Behaviour ? (Refer Unit-II, Q.No. 2)
2. Define Customer expectations in Services. Explain the concept of customer service expectations. (Refer Unit-II, Q.No. 4)
3. Discuss about Consumer Perceptions of Service. (Refer Unit-II, Q.No. 6)
4. Explain about Customer Satisfaction. (Refer Unit-II, Q.No. 8)
5. Examine the ways and means of building customers relationships. (Refer Unit-II, Q.No. 12)
6. Explain about customer probability segments. (Refer Unit-II, Q.No. 14)
7. Explain about customer feedback. (Refer Unit-II, Q.No. 16)
8. Discuss about service recovery strategies. (Refer Unit-II, Q.No. 19)

**UNIT - III****Part - A**

1. Service Innovation. (Refer Unit-III, SQA-1)
2. Service Quality. (Refer Unit-III, SQA-2)
3. Customer Service Standard. (Refer Unit-III, SQA-5)
4. Physical Evidence. (Refer Unit-III, SQA-6)
5. The Services Scapes. (Refer Unit-III, SQA-7)

**Part - B**

1. What are the types of Service Innovation ? (Refer Unit-III, Q.No. 3)
2. Describe the various Stages in Service Innovation and Development along with a neat diagram. (Refer Unit-III, Q.No. 4)
3. Explain the GAPS Model of Service Quality. (Refer Unit-III, Q.No. 6)
4. Discuss about Provider Gap and Closing Gap. (Refer Unit-III, Q.No. 8)
5. What is Service Standards ? and What are the Factors and Types of Service Standards ? (Refer Unit-III, Q.No. 10)
6. Explain the of Physical Evidence in importance of services marketing. (Refer Unit-III, Q.No. 11)
7. Explain the Framework for Under Standing Service scape Effects on Behavior. (Refer Unit-III, Q.No. 14)

**UNIT - IV****Part - A**

1. Service Blueprinting. (Refer Unit-IV, SQA-1)
2. Demand Patterns (Refer Unit-IV, SQA-3)
3. Employ Operational Logic (Refer Unit-IV, SQA-5)
4. Developing a Service Culture (Refer Unit-IV, SQA-7)
5. The Services Triangle (Refer Unit-IV, SQA-8)

**Part - B**

1. Write about key success factors for service organization. (Refer Unit-IV, Q.No. 4)
2. What are the Strategies for Matching Capacity and Demand? (Refer Unit-IV, Q.No. 6)
3. Who are the Participants in Services? (Refer Unit-IV, Q.No. 9)
4. Explain the Employee's Roles in Service Delivery. (Refer Unit-IV, Q.No. 10)
5. What are the Strategies for Delivering Service Quality through People? (Refer Unit-IV, Q.No. 13)
6. Discuss about Customer's Roles in Service Delivery. (Refer Unit-IV, Q.No. 15)
7. What are the Strategies or Enhancing Customer Participation ? (Refer Unit-IV, Q.No. 16)
8. Discuss about Mass Production and Delivery. (Refer Unit-IV, Q.No. 17)

**UNIT - V****Part - A**

1. Distribution Channel (Refer Unit-V, SQA-1)
2. Types of Intermediaries (Refer Unit-V, SQA-2)
3. Challenges in Services Marketing in India (Refer Unit-V, SQA-4)
4. Cost-Based Pricing (Refer Unit-V, SQA-5)
5. Competitor-based Pricing (Refer Unit-V, SQA-6)

**Part - B**

1. Write about Managing Service Promises. (Refer Unit-V, Q.No. 1)
2. Explain the role of intermediaries in service industry. (Refer Unit-V, Q.No. 4)
3. What are the Pricing Methods for Services? (Refer Unit-V, Q.No. 6)
4. Explain the Need for Coordination in Marketing Communication. (Refer Unit-V, Q.No. 10)
5. What are the Five Categories of Strategies to Match Service Promises with Delivery ? (Refer Unit-V, Q.No. 11)

# JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

M.B.A II - Year IV - Semester Examination

**R17**

September - 2020

## SERVICES MARKETING

Time : 2 Hours]

[Max. Marks : 75

**Note :** Answer any **Five** questions

All questions carry equal marks

### ANSWERS

1. Give an account of the various classifications of services. (Unit-I, Q.No.5)

2. Evaluate the prospects and challenges faced by emerging service sectors in India. (Unit-I, Q.No.13)

3. Relate between customer service expectation, perception and satisfaction.

*Ans :*

#### (i) Satisfaction

Customer Satisfaction from a customer perspective is often used in marketing strategies to measure the extent products & services fulfill or exceeded customer expectations.

Therein, customer satisfaction is intricately tied to value in the business world.

Satisfaction = Perception – Expectations

#### (iii) Perception

- Perception is subjective, as in, it is dependent on the person who is perceiving and a host of internal & external factors: customer mood; customer stress levels; customer needs, duration of customer experience, etc.
- Perception in a moment manifests into future expectations. Further down, we'll explore how expectations are shaped & informed by previous perceptions with service, experiences, brands, competitors, and industries

#### (iii) Expectations

They form before customer experience

- They are inevitable as all customers imagine how a particular product and/or service experience will play out
- They are subjective, as in, shift as per customer types, moods, previous experiences, and standards, etc.

- They aren't always real as they can be imagined or based off expectations with similar products, services, experiences, and public opinions
- They fall in line with expectations placed on an industry and brands
- 4. Examine the ways and means of building customer relationship. (Unit-II, Q.No.12)
- 5. Assess with suitable examples the importance of physical evidence in services marketing. (Unit-III, Q.No.11)
- 6. Propose suitable strategies to manage and avoid unethical practices of service organizations. (Unit-IV, Q.No.19)
- 7. Explain the challenges in managing people in service industry.

*Ans :*

**(i) Managing the outcome and experience**

One of the challenges of service businesses is that, for many, there is no clear distinction between the what and the how at the customer interface. For example, a customer in a restaurant is buying both the meal and the way in which they are served. This is completely different to manufacturing operations where the production and delivery to the customer are completely separate. A critical challenge therefore for service businesses is managing outcomes and experiences simultaneously.

**(ii) Managing the customer**

Many service businesses face a challenge not shared by manufacturing, that of the presence of the customer, often as an essential part of the service production process. The design of the service must manage the customer through the process with an awareness of moods and attitudes of individual customers.

The presence of the customer also renders the operation visible to the customer, so the servicescape needs to be designed to create the right atmosphere for the service.

**(iii) Service is real-time**

Many services happen in real-time, they cannot be delayed or put off. A passenger wanting to purchase a ticket for immediate travel may not be willing to return tomorrow if the sales agent is busy. Furthermore, during a service encounter it is not possible to undo what is done or said – things in the heat of the moment or promises that cannot be kept. In service there is no rewind button. Managing capacity and creating an appropriate culture are key challenges in managing real-time services.

**(iv) Co-ordination**

Service businesses are extremely demanding, requiring integration of marketing, resource management, people management and so on. The small service business owner is responsible

for co-ordinating these various parts of the organization to deliver the service and understand and meet the needs of the customer.

**(v) Improving the operation**

A challenge faced by all small service business owners is how to continually improve and develop their processes and products, ensure that the outcomes are real improvements and that there is a culture that is supportive of service and change. An important challenge in this area is managing the increased complexity resulting from change.

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8. Make a detailed report on the utility of five categories of strategies to match service promises with delivery.

**(Unit-V, Q.No.11)**

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**JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD****M.B.A II - Year IV - Semester Examination****R17****December - 2019****SERVICES MARKETING**

Time : 3 Hours]

[Max. Marks : 75

**Note :** This question paper contains two parts A and B.

Part A is compulsory which carries 25 marks. Answer all questions in Part A. Part B consists of 5 Units. Answer any one full question from each unit, Each question carries 10 marks and may have a, b, c as sub questions.

**PART - A (5 × 5 = 25 Marks)****ANSWERS**

1. (a) Explain the basic differences between Goods and Services (Unit-I, Q.No.6)
- (b) What is service recovery paradox ? (Unit-II, Q.No.18)
- (c) Explain salient features of Gaps model of service. (Unit-III, Q.No.6)
- (d) What are the benefits of services guarantees ? (Unit-IV, Q.No.18)
- (e) Explain the role of non-monetary costs in pricing of services.

*Ans :*

When a customer buys a product, he is not only spending money, he is spending other things as well. These things are called non-monetary costs and they are spent in the form of time, convenience, effort and psychology. In recent years economists have recognized that monetary price is not the only sacrifice consumers make to obtain products and services. Demand, therefore, is not just determined by monetary price but is influenced by other costs as well. Non-monetary costs have become an important concept in social marketing.

Non-monetary costs represent other sources of sacrifice perceived by consumers when buying and using a service. Time costs, search costs, and psychological costs often enter into the evaluation of whether to buy or rebuy a service and may at times be more important concerns than monetary price.

**PART - B (5 × 10 = 50 Marks)**

2. Discuss the various factors responsible for the growth of services sector. (Unit-I, Q.No.9)

OR

3. Explain the role of services in the modern economy and its recent trends.

*Ans :*

**Services as a growing part of the economy**

- (i) The contribution of services to economies has increased over time. In 1980–2015, the share of services in GDP increased in all income level groups, including from 61 to 76 per cent in developed economies and from 42 to 55 per cent in developing economies. Services are predominant in all developing regions, including in the least developed countries (LDCs). The increase in services output in this period largely corresponds to a decline in industrial output in developed economies and a decline in agricultural output in developing economies.
- (ii) Services are also predominant in employment. In 2016, the broad services sector was estimated to account for nearly half (49 per cent) of global jobs. As in output, the importance of services is more pronounced in developed economies (where services jobs represent 75 per cent of the total) than in developing economies (44 per cent). Services have been the main job provider since the mid-2000s, including during the 2008–2009 global economic and financial crisis. Annually in 2001–2016, the importance of the construction, tourism and other business services sectors in the global job market increased, including in developing economies.
- (iii) Employment in services is particularly relevant for women as, globally, women have the highest share of jobs in the sector. The participation of women in services jobs in developing economies is 41 per cent, second only to the agricultural sector. Services employment is also important for migrant workers as some host countries, such as Canada and the United States of America, rely heavily on migrants in their broad services sectors. Services-related policies are therefore relevant for inclusive employment, especially in the current context of persistent high levels of unemployment.
- (iv) Services are also prevalent in foreign direct investment, with announced Greenfield investment in the last 10 years mainly concentrated in the services sector. In 2015, services received 53 per cent of investment. In addition, foreign direct investment in services has grown faster than investment in the primary and manufacturing sectors. The infrastructure services sector has grown particularly quickly; in 2015, more than half of announced Greenfield investment in services was in this sector.

4. Discuss the various successful customer retention strategies followed by service organizations with examples.

*Ans :*

Customer retention is the act of deterring customers from defecting to another company or the actions a company takes to encourage customers to stay. Most companies focus more attention on the acquisition of new customers than customer retention. However, customer retention is actually much cheaper for companies than customer acquisition.

The best customer retention strategies are formed around business goals and insights. For example, one goal may be increasing customer loyalty, and in this case, you'd want to pick strategies that focus on this. You may want to signal that your service is consistent and reliable with solid brand awareness. You may want to focus on developing a more personal relationship with your existing customers. If your customers come to your business because you offer the best prices, then your customer retention strategy should revolve around reminding them of this and get straight to costs! Whatever niche your business falls into should be reflected in your customer retention strategy and knowing what your goals are will help you pick the right strategy for your business.

- Provide Excellent Customer Service
- Customer Surveys
- Keep Customers Informed
- Customer On boarding
- Be Personal

OR

5. Explain the various qualitative research methods used in services marketing research program.

*Ans :*

**(i) Individual Interviews**

An individual interview can be conducted over the phone, Skype, or in person. The idea is to ask your ideal user (or an existing customer) a series of questions and follow-ups to

**(ii) Focus Groups**

Focus groups are generally conducted in-person. These groups are meant to provide a safe and comfortable environment for your users to talk about their thoughts and feelings surrounding your product. learn what motivates them to buy a product like yours.

**(iii) Online Focus Groups**

Online focus groups are similar to in-person focus groups, except that they are more cost-efficient and allow you to reach more people.

Use social media to your advantage by creating communities of people who are interested in your topic, and fostering a conversation. Then, simply observe the dialogue. You'll gain a lot of interesting insights.



6. Discuss the various stages involved in service innovation and development and its resulting challenges. (Unit-III, Q.No.4)

OR

7. What is the service scape ? Explain how service scape affects employee and customer behaviour. (Unit-III, Q.No.13,14)

8. Discuss with examples, the various strategies used by marketers to shift demand to match capacity. (Unit-IV, Q.No.6)

OR

9. What are the various strategies used by service firms to involve customers to increase quality and production. (Unit-IV, Q.No.13)

10. Discuss the various cost-based pricing methods in services. (Unit-V, Q.No.6 (A Point))

OR

11. What are the various types intermediaries used by service organizations ?  
Analyze the problems associated with these intermediaries.

*Ans :*

**(i) Agents/Brokers**

Agents or brokers are individuals or companies that act as an extension of the manufacturing company. Their main job is to represent the producer to the final user in selling a product. Thus, while they do not own the product directly, they take possession of the product in the distribution process. They make their profits through fees or commissions.

**(ii) Wholesalers**

Unlike agents, wholesalers take title to the goods and services that they are intermediaries for. They are independently owned, and they own the products that they sell. Wholesalers do not work with small numbers of product: they buy in bulk, and store the products in their own warehouses and storage places until it is time to resell them. Wholesalers rarely sell to the final user; rather, they sell the products to other intermediaries such as retailers, for a higher price than they paid. Thus, they do not operate on a commission system, as agents do.

**(iii) Distributors**

Distributors function similarly to wholesalers in that they take ownership of the product, store it, and sell it off at a profit to retailers or other intermediaries. However, the key difference is that

distributors ally themselves to complementary products. For example, distributors of Coca Cola will not distribute Pepsi products, and vice versa. In this way, they can maintain a closer relationship with their suppliers than wholesalers do.

**(iv) Retailers**

Retailers come in a variety of shapes and sizes: from the corner grocery store, to large chains like Wal-Mart and Target. Whatever their size, retailers purchase products from market intermediaries and sell them directly to the end user for a profit.

**(v) Channel Design**

A firm can have any number of intermediaries in its channels. A “level zero” channel has no intermediaries at all, which is typical of direct marketing. A “level one” channel has a single intermediary, usually from the manufacturer to the retailer to the consumer.

*Rahul Publications*

**JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD****M.B.A II - Year IV - Semester Examination****R17****April / May - 2019****SERVICES MARKETING**

Time : 3 Hours]

[Max. Marks : 75

**Note :** This question paper contains two parts A and B.

Part A is compulsory which carries 25 marks. Answer all questions in Part A. Part B consists of 5 Units. Answer any one full question from each unit, Each question carries 10 marks and may have a, b, c as sub questions.

**PART - A (5 × 5 = 25 Marks)****ANSWERS**

1. (a) State the characteristics of services.

*Ans :***(i) Lack of Ownership**

Lack of ownership may be one of the most obvious ones of the characteristics of service. It refers to the fact that you cannot own and store a service like you can a product. This characteristic is strongly linked to several other characteristics of services, such as intangibility, perishability, inseparability.

**(ii) Intangibility**

When thinking about the characteristics of services, intangibility may come to your mind first. Service intangibility means that services cannot be seen, tasted, felt, heard or smelled before they are bought. You cannot try them out. For instance, airline passengers have nothing but a ticket and a promise that they will arrive at a certain time at a certain destination. But there is nothing that can be touched.

**(iii) Variability**

Variability does also belong to the important characteristics of services. It refers to the fact that the quality of services can vary greatly, depending on who provides them and when, where and how. Because of the labor-intensive nature of services, there is a great deal of difference in the quality of service provided by various providers, or even by the same providers at different times

- (b) Distinguish between consumer perception and consumer satisfaction.

*Ans :*

Consumer perception is an important component of a business' relationship with the consumers. Consumer satisfaction is a mental state which results from the consumer comparison of expectations prior to a purchase with performance perceptions after a purchase. A consumer may make such comparisons for each part of an offer called "domain-specific satisfaction." Moreover this mental state, which we view as a cognitive judgment, is conceived of as falling somewhere on a bipolar continuum bounded at the lower end by a low level of satisfaction where performance perceptions exceed expectations.

- (c) Explain different types of service innovations. (Unit-III, Q.No.3)
- (d) What is Service Blueprinting ? (Unit-IV, SQA.1)
- (e) What do you mean by pricing strategies for services ? (Unit-V, Q.No.6)

**PART - B (5 × 10 = 50 Marks)**

2. How do you classify services ? Explain the factors that are responsible for growth of service sector. (Unit-I, Q.No.5,9)

OR

3. Assess the impact of technology on service firms in modern times. (Unit-I, Q.No.12)
4. What are consumer expectations in service ? Also state the parameters that measure consumer satisfaction. (Unit-II, Q.No.4,8)

OR

5. Elucidate :
- (a) Customer feedback (Unit-II, Q.No.16)
- (b) Relevancy of consumer behaviour (Unit-II, Q.No.3)
- (c) Recovery strategy (Unit-II, Q.No.19)
6. Describe the various stages in service innovation and development along with a neat diagram. (Unit-III, Q.No.4)

OR

7. Write notes on :
- (a) Customer Gap (Unit-III, Q.No.7)
- (b) Service Quality (Unit-III, Q.No.5)
- (c) Service failure (Unit-III, Q.No.17)
8. What are the different stages involved in managing demand and supply of services ? (Unit-IV, Q.No.4)

OR

9. Explain the following :
- (a) Participants in services (Unit-IV, Q.No.9)
- (b) Mass production (Unit-IV, Q.No.17)
- (c) Service Guarantee (Unit-IV, Q.No.18)
10. How do you manage people in service industry in the context of turbulent environment ? (Unit-V, Q.No.4)

OR

11. Write note on :
- (a) Promotion strategies (Unit-V, Q.No.9)
- (b) Marketing Communication (Unit-V, Q.No.10)
- (c) Service promises (Unit-V, Q.No.1)

# JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

M.B.A II - Year IV - Semester Examination

**R19**

MODEL PAPER - I

## SERVICES MARKETING

Time : 3 Hours]

[Max. Marks : 75

**Note :** This question paper contains two parts A and B.

Part A is compulsory which carries 25 marks. Answer all questions in Part A. Part B consists of 5 Units. Answer any one full question from each unit, Each question carries 10 marks and may have a, b, c as sub questions.

### PART - A (5 × 5 = 25 Marks)

#### ANSWERS

- |                           |                   |
|---------------------------|-------------------|
| 1. (a) Service marketing. | (Unit-I, SQA.1)   |
| (b) Customer Perception   | (Unit-II, SQA.5)  |
| (c) Service Innovation    | (Unit-III, SQA.1) |
| (d) Service Blueprinting  | (Unit-IV, SQA.1)  |
| (e) Distribution Channel  | (Unit-V, SQA.1)   |

### PART - B (5 × 10 = 50 Marks)

- |  |                     |
|--|---------------------|
| 2. Define Service Marketing. Explain the Components and Importance of Service Marketing. | (Unit-I, Q.No. 1)   |
| OR   |                     |
| 3. Write are the Characteristics of Service Marketing ?                                  | (Unit-I, Q.No. 4)   |
| 4. What are the stages of Consumer Behaviour ?   | (Unit-II, Q.No. 2)  |
| OR   |                     |
| 5. Explain the relevance of consumer behaviour.  | (Unit-II, Q.No. 3)  |
| 6. Discuss about Challenges and Mapping Patterns of Service Innovation and Design.       | (Unit-III, Q.No. 2) |
| OR   |                     |
| 7. Explain the Stages in Service Innovation Development.                                 | (Unit-III, Q.No. 4) |
| 8. Explain about Service Operations Process.   | (Unit-IV, Q.No. 1)  |
| OR   |                     |
| 9. Discuss about Service Blueprinting.   | (Unit-IV, Q.No. 2)  |
| 10. Write about distribution channel.  | (Unit-V, Q.No. 2)   |
| OR   |                     |
| 11. What are the Strategies for Distribution ?   | (Unit-V, Q.No. 3)   |

## JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

M.B.A II - Year IV - Semester Examination

R19

MODEL PAPER - II

## SERVICES MARKETING

Time : 3 Hours]

[Max. Marks : 75

**Note :** This question paper contains two parts A and B.

Part A is compulsory which carries 25 marks. Answer all questions in Part A. Part B consists of 5 Units. Answer any one full question from each unit, Each question carries 10 marks and may have a, b, c as sub questions.

**PART - A (5 × 5 = 25 Marks)****ANSWERS**

- |                                     |                   |
|-------------------------------------|-------------------|
| 1. (a) Services                     | (Unit-I, SQA.3)   |
| (b) Customer feedback               | (Unit-II, SQA.9)  |
| (c) Customer Gap                    | (Unit-III, SQA.3) |
| (d) Components of Service Blueprint | (Unit-IV, SQA.2)  |
| (e) Types of Intermediaries         | (Unit-V, SQA.2)   |

**PART - B (5 × 10 = 50 Marks)**

- |  |                      |
|--|----------------------|
| 2. What are the Classification of Services?  | (Unit-I, Q.No. 5)    |
| OR   |                      |
| 3. Discuss about Goods Vs Services.  | (Unit-I, Q.No. 6)    |
| 4. Define Customer expectations in Services. Explain the concept of customer service expectations.           | (Unit-II, Q.No. 4)   |
| OR   |                      |
| 5. Explain about relationship marketing.   | (Unit-II, Q.No. 12)  |
| 6. Write about Service Quality.  | (Unit-III, Q.No. 5)  |
| OR   |                      |
| 7. What is Service Standards ? and What are the Factors and Types of Service Standards?                      | (Unit-III, Q.No. 10) |
| 8. How to Building a Blueprint in services?  | (Unit-IV, Q.No. 3)   |
| OR   |                      |
| 9. Write about key success factors for service organization.   | (Unit-IV, Q.No. 4)   |
| 10. What are the Disadvantages, Drawbacks / Challenges in Distributing Services through Electronic Channels? | (Unit-V, Q.No. 5)    |
| OR   |                      |
| 11. What are the Pricing Methods for Services?   | (Unit-V, Q.No. 6)    |

## JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

## M.B.A II - Year IV - Semester Examination

R19

## MODEL PAPER - III

## SERVICES MARKETING

Time : 3 Hours]

[Max. Marks : 75

**Note :**

This question paper contains two parts A and B.

Part A is compulsory which carries 25 marks. Answer all questions in Part A. Part B consists of 5 Units. Answer any one full question from each unit, Each question carries 10 marks and may have a, b, c as sub questions.

**PART - A (5 × 5 = 25 Marks)****ANSWERS**

- |                            |                   |
|----------------------------|-------------------|
| 1. (a) 4 I's of Services   | (Unit-I, SQA.4)   |
| (b) Relationship marketing | (Unit-II, SQA.7)  |
| (c) Physical Evidence      | (Unit-III, SQA.6) |
| (d) The Services Triangle  | (Unit-IV, SQA.8)  |
| (e) Role of Intermediaries | (Unit-V, SQA.3)   |

**PART - B (5 × 10 = 50 Marks)**

- |   |                      |
|---|----------------------|
| 2. Explain about Services Marketing Mix.  | (Unit-I, Q.No. 7)    |
| OR  |                      |
| 3. Explain about Service Marketing Triangle.  | (Unit-I, Q.No. 8)    |
| 4. Explain about service recovery.  | (Unit-II, Q.No. 18)  |
| OR  |                      |
| 5. Discuss about service recovery strategies.   | (Unit-II, Q.No. 19)  |
| 6. Explain the concept of Physical Evidence.  | (Unit-III, Q.No. 11) |
| OR  |                      |
| 7. Discuss about the Services Scapes.   | (Unit-III, Q.No. 13) |
| 8. What are the Participants in Services?   | (Unit-IV, Q.No. 9)   |
| OR  |                      |
| 9. Explain the Critical Role of Service Employees.                                      | (Unit-IV, Q.No. 11)  |
| 10. Discuss about Promotion Strategies for Services.                                    | (Unit-V, Q.No. 9)    |
| OR  |                      |
| 11. What are the Five Categories of Strategies to Match Service Promises with Delivery? | (Unit-V, Q.No. 11)   |