

Services Marketing

Block

1

INTRODUCTION TO SERVICES MARKETING

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COURSE INTRODUCTION

The services sector accounts for 54.4% ¹share in India's gross value added for the year 2018-19. This is a far cry from the situation that prevailed a few decades ago, when India was basically an agricultural economy. This shift from agriculture and manufacturing to services, a global phenomenon, has transformed the composition of global production and global trading patterns as well. Services marketing concepts, strategies and framework have evolved to help service marketers and students understand the various issues and challenges surrounding marketing of services. This course on service marketing, which has five blocks and 24 units provides a good understanding of the nature of services, the challenges faced in service marketing and the marketing strategies and tools that can be deployed to attract and retain customers.

Block 1, which contains six units, deals with the basic concepts of service marketing. The block's first unit begins by tracing the service trends of the national and global economy that have shaped the growth of the service economy. The key characteristics of services and the expanded marketing mix to overcome the challenges posed by the unique characteristics constitutes the subject matter of the second and third units. Customer purchase behavior, customer expectations and consumer perceptions are discussed in detail to understand how customers make purchase decisions in the fourth and fifth units. Enhancing customer experience is the ultimate goal of customer-centric service organizations and listening to customers is the key to maximizing customer experiences.

Block 2 which has four units discusses the various marketing strategies that help create value for customers. Marketing strategies that help service marketers create profitable customer value and forge long-lasting customer relationship are: segmentation of the market, target market selection, differentiation of the service and positioning of the services.

The service marketing mix is a synthesis of the various marketing mix elements (extended marketing of seven) that the company deploys to promote the service and motivate customers to buy the service. Block 3, which has four units (11-14 units) begins with a detailed coverage of the expanded marketing mix of services marketing in the eleventh unit. In the subsequent units, it covers three elements of marketing mix: Product and packaging of services, pricing and promotion and communication of services.

Block 4 has five units in total. The first four units (15th-19th) cover in detail the other four elements of product mix, namely place, people, processes in service and physical evidence. The twentieth unit discusses the concept of service settings.

The primary objective of customer relationship management is to make a service company customer-centric, engage customers, improve customer service and ultimately increase sales. Block 5 of the course on Services Marketing deals with managing customer relationship and services with a view to maximize service potential and minimize

¹ "Sector-wise GDP of India", June 17th 2021, <http://statisticstimes.com/economy/sectorwise-gdp-contribution-of-india.php>

challenges faced by the management. The block contains five units. The first unit discusses the concept of internal marketing. The second focuses on service failure and service recoveries. The third unit discusses customer relationship management in service. The fourth and the fifth units deal with service quality and globalization of services, respectively.

Services marketing is a people-dependent activity owing to the fact that there is often no tangible product that is delivered to customers. Quality services can improve the standard of the living and quality of life of people. This course on service marketing would help students understand services, its operations and delivery, management and marketing.

This edition has added a large number of contemporary examples and deleted old examples and exhibits. It has simplified the language and text layout to make it more readable. Additional content is added in units 4 and 6. Consumer complaining behavior has been added in unit 4 and customer service standards along with various types of service standards have been added in unit 6.

BLOCK 1: INTRODUCTION TO SERVICES MARKETING

Services Marketing, as a field of study in Marketing Management, takes into consideration the unique characteristics of services such as intangibility, inseparability, perishability, etc. As a branch of marketing, 'Services Marketing' concepts, theories and principles apply to service industries. The first block of the course on Services Marketing deals with the basics of service marketing. The block contains six units. The first unit discusses the service economy: national and global scenario. The second unit focuses on understanding services. The third unit discusses nature of services marketing. The fourth and the fifth units discuss the behavior of consumers and the concept of customer expectations and perceptions, respectively. The sixth unit discusses how to listen to customers and offer the best customer experience.

The rapid growth of services has significantly impacted both the national (Indian) and global economy. With its raising importance, service sector's relevance to economic growth and development of countries has risen. During the last century, national and global economies have witnessed a radical shift from agrarian to industrial to service economy. The first unit, *Service Economy Trends in National and Global Scenario*, discusses the service economy trends with a focus on both International and Indian scenario. It discusses the growth, and development in key service sectors i.e. healthcare, telecommunication, banking, tourism and hospitality, airlines, IT, media and entertainment and consultancy services. The unit also discusses the challenges in service sectors. The unit ends with elaborating on the regulatory framework governing services.

Due to the unique characteristics of services, service marketers face certain challenges while marketing services to customers. To overcome these challenges, they need to adopt a different marketing approach while marketing services. The second unit, *Understanding Services*, defines and introduces the basic concept of services. It discusses the growing importance of services and the factors influencing the growth of the service sector. It analyzes the tangibility spectrum that differentiates a service from a product, and brings out the generic differences between goods and services. The unit also discusses the classification of services. Besides it gives a description of how to develop a framework for analyzing services. The unit ends by touching on some myths about services.

The unique characteristics of services demand that service marketers incorporate an expanded marketing mix incorporating three additional elements (people, process and physical environment) to the traditional marketing-mix elements. The third unit, *The Nature of Services Marketing*, introduces services marketing. The unit starts with a discussion on the evolution of service firms, and how differently services are marketed. The unit describes the service marketing triangle, and the services marketing mix. It also explains the key marketing issues and challenges before a service organization. The unit ends with a discussion on the new trends in the field of services marketing.

Consumer behavior in service sector encompasses the processes and motives that drive consumer buying. It is imperative that marketers understand the various stages that consumers navigate while making purchase decisions. The fourth unit, *Consumer*

Behavior, focuses on the behavior of consumers. It first discusses the differences between the consumer evaluation process for goods and services. The unit also explains in detail the various stages involved in the consumer decision-making process. It then discusses the external factors that influence the behavior of consumers and consumer complaining behavior. The unit ends with a discussion on how the knowledge of the factors influencing consumer behavior has implications for the service providers.

Customer perceptions of service quality depends on customer interaction with the service provider and satisfaction derived from consumption of the service. Service expectation is a key component that determines customer satisfaction. The fifth unit, *Customer Expectations and Perceptions*, talks about understanding customer requirements and customer expectations. The unit discusses the various types of service expectations and the factors that influence the customer expectations of service. It then examines the ways to manage and exceed customer service expectations. The unit defines customer perceptions and examines the factors influencing them. It ends with a discussion on the various strategies that can be used to influence customer perceptions.

The goal of a service business is better achieved when the firm and its employees listen to customers, their feedback and also study the complaints reported. The sixth unit, *Listening to Customers*, discusses the use of marketing research in services and how it helps in listening to the customers. It discusses the approaches and stages involved in conducting marketing research. It also discusses the uses of marketing research information, the importance of upward communication in listening to customers and customer service standards. It then discusses the concept of service quality, various dimensions of service quality i.e. SERVQUAL model, and how to measure it. The unit also explains the concept of service quality standards, benchmarking and TQM. The unit ends with a discussion on strategies for monitoring and improving service quality.

Unit 1

Service Economy Trends in National and Global Scenario

Structure

- 1.1. Introduction
- 1.2. Objectives
- 1.3. Service Economy Trends: Global Scenario
- 1.4. Service Economy Trends: Indian Scenario
- 1.5. Key Services: A Sectoral View
- 1.6. Service Sector: Challenges Faced
- 1.7. Regulatory Framework for Services
- 1.8. Summary
- 1.9. Glossary
- 1.10. Self-Assessment Test
- 1.11. Suggested Readings/Reference Materials
- 1.12. Answers to Check Your Progress Questions

*“Service which is rendered without joy helps neither the servant nor the served.
But all other pleasures and possessions pale into nothingness before service
which is rendered in a spirit of joy.”*

- Mahatma Gandhi

1.1 Introduction

Service sector plays a very significant role in the development of a modern economy. This sector is so important that the performance of a national economy depends mostly on the performance of the services or tertiary sector.

The three to four decades from 1980 have seen the rising importance and growth of services sector in both the developed and developing countries. From the middle of 2010s, the list of Fortune 500 companies contains more service companies than manufacturing. Financial services, retail, health, education and information technology are the industries that are driving the growth of services sector. Servitization of products (increase in the service component of products) is also on the increase.

In this unit, service economy trends at both national and global level are covered. The growth trends of some of the key services of the Indian economy are covered. Further, students are provided insights on the challenges faced by service industries in India and the regulatory environment of the service sector is mapped.

Block 1: Introduction to Services Marketing

When income level increases, people start demanding services like tourism, entertainment, education and training, healthcare, etc. Services, which are also called “intangible goods” also include consultancy and providing expert advice based on experience and knowledge. The primary wealth creators in the modern service age are knowledge intensive industries like information and communication technology, bio-technology, entertainment, tourism, health, transportation and hospitality.

1.2 Objectives

After studying this unit, you should be able to:

- Describe service economy trends: Global scenario
- Discuss national scenario of service economy
- Explain the trends in key services - Telecommunication, banking, IT, tourism, airlines, etc.
- Determine challenges faced in services sector
- Outline the regulatory framework for services

1.3 Service Economy Trends: Global Scenario

The service sector, which is considered indispensable for economic development, has emerged as the main and fastest-growing sector in the global economy in the last three decades. This sector plays an important role in the global economy by generating opportunities for higher income, productivity, growth, investment employment and trade in the global economy.

By 2019, according to estimates the share of services in GDP of developed economies to be more than 75%² and that of the developing economies was 55%. Further, global trade in services was observed to be growing at a faster pace as compared to trade in goods.

Hundred years ago, agricultural sector was the main contributor to national income. In the 60s, the agrarian age gave way to the industrial age. In the 21st century the service sector dominates and hence this age is called as service age or knowledge age.

There are several megatrends that shape the global economy and they have been featured below.

Increasing share of service sector in GDP of countries

As countries grow and develop economically, the share of service sector in GDP increases. This trend has been observed and presented by economists in their research (Fisher, 1935 & Clark, 1940). As people’s incomes rise they demand

² Indermit Gill, “At your service? Developing economies bet on service industries for growth”, September 27th 2021, <https://blogs.worldbank.org/voices/your-service-developing-economies-bet-service-industries-growth> (Accessed on May 30th 2022)

less of products and more of education, better transport, health, entertainment and many other services. In USA, in 2018, agricultural sector contributed a mere 0.86% to GDP of the country and the GDP share of manufacturing in US was 18.64% and that of services sector was 76.89%³. In a demand driven economy like that of US, the lion's share of GDP is contributed by service sector.

In the past there was a gap in the growth of services sector between the developed and developing and under developed nations. However, with increase in the growth rates in developing and underdeveloped economies, these economies are also witnessing a spurt in the demand and supply of services.

Employment potential of service sector

Labor productivity in services cannot grow as it does in industrial or agricultural sector, the reason being that services sector is more people intensive (most service jobs cannot be performed by machines). Due to the same reason service sector provides more employment as compared to industrial and agricultural sector. In a majority of the developed countries, service sector has become a strategic sector of the economic policy for employment generation.

Service sector is socially sustainable

Services sector consumes few natural resources as compared to industrial or agricultural sector. Service production requires more human resources and fewer natural resources and hence is socially sustainable.

New thrust to higher education and vocational training

The rising importance of service sector has given a new thrust to education. Developments in telecommunication, Information technology, Internet services and banking have created employment opportunities for skilled and educated manpower. As a result of all these developments there is a lot of emphasis on vocational training and higher education.

Technology powered service revolution

In the past, it was manufacturing sector that was the beneficiary of most of the inventions in the areas of science and technology. Service sector was contributing significantly to the global economy, but was not able to get the scientific attention it deserved.

Electronic business now has become a pervasive global force and is driving the revolution in service sector. Service quality, service experience, delighting of customers, etc. are the buzz words in the service industry and technology has made all this possible.

³ "Distribution of gross domestic product (GDP) across economic sectors in the United States from 2000 to 2018", May 2021, <https://www.statista.com/statistics/270001/distribution-of-gross-domestic-product-gdp-across-economic-sectors-in-the-us/> (Accessed on May 2022) -

Block 1: Introduction to Services Marketing

Servitization of products

Product marketers who sell tangible products are servitizing to differentiate their products from that of the competitors. Worldwide, pizza and burger producers try to gain a competitive edge by adding value in the distribution stage of the value chain. One might have heard consumers complaining about the quality of McDonald Burgers, but all acknowledge their quality of service. Similarly, Maruti Suzuki takes pride in its highly accessible after sales service and uses the same as a differentiating factor.

Example

Cosmetic companies like Lakme were basically physical product manufacturers. But to increase their market, they started their own beauty salons under brand name 'Lakme Salon'. They get more volumes for their products by recommending their products through salons and also they can get a new market for their services too. Hence 'Servitization of products' is of growing importance in modern marketing as of 2022.

For details, check out "The rise of services and fall of products", February 3rd 2022, <https://brandequity.economictimes.indiatimes.com/news/marketing/the-rise-of-services-and-fall-of-products/89306274> (accessed on 4/5/22)

Spurt in global trade in services

Traditionally services activities were not traded and were confined to domestic boundaries. Most economies were closed economies. While they encouraged international trade of products, trade of services was either totally prohibited or restricted. Now with opening up of developing economies, global service brands are keen on investing in countries like India and China. Another global trend observed in service industry is that of outsourcing. Back office jobs, which are peripheral to the core competence of the MNCs of the developed world, are electronically shipped to Asian countries where the same jobs are done at a fraction of a cost.

Activity 1.1

Collect statistical data pertaining to the growth rates of China, India, USA, UK and Germany for a period of 25 years, starting from 1995 till 2020. Also collect data to study the structure and composition of national income, in terms of contribution of primary sector, manufacturing sector and services sector during the same period. Draw line graphs to trace the trends in the composition of national income. Is there any correlation between growth rates of nation and contribution of services sector to national income? If so, what is the reason?

Answer:

1.4 Service Economy Trends: Indian Scenario

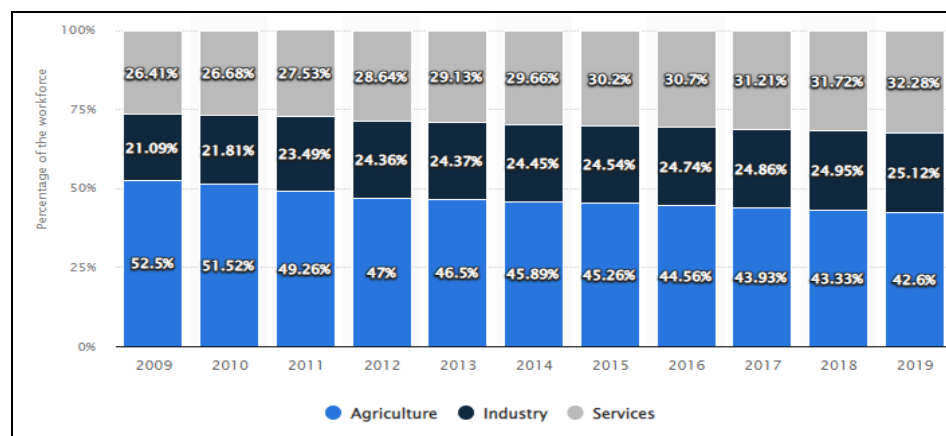
Historically economic development, associated with structural changes in national economies, diminishes the role of agriculture and its contribution to national income and employment. In its place increases the share of industry and services sector. Indian economy too witnessed a similar structural change along with development. Let us understand the same trend.

The contribution of the three major sectors to the GDP in the year 1951, was as follows: Agricultural and allied sector-51.8%, industry-14.16% and services sector-33.25%. The last few decades have witnessed a structural shift with services sector contributing a very high share to the total GDP of the country. In 2020, almost half of India's GDP was generated by the services sector.

In 2020-21, the services sector accounts for 53.89% of total India's GVA⁴ of 179.15 lakh crore Indian rupees. With GVA of ₹ 46.44 lakh crore, the industry sector contributes 25.92%. While agriculture and allied sector share 20.19%.⁵

In the first three decades (1950s to 1970s) after India's independence, the share of services sector was small and a large number of services were government monopolies. Growth of services accelerated in the 1990s, when India initiated a series of economic reforms which led to privatization and relaxation of FDI (Foreign Direct Investment) restrictions. The notable performance of Indian economy during the last three decades is to a very large extent attributable to the impressive growth shown by services sector. Unlike other countries, where economic growth has led to a shift from agriculture to industries, in India, there has been a shift from agriculture to the services sector.

Service sector's contribution to employment of the country too has witnessed an increase over the last few decades. Figure 1.1 captures the employment generating potential of the various sectors of the Indian economy.



Source: India: Distribution of the workforce across economic sectors from 2009 to 2019, February 2022, <https://www.statista.com/statistics/271320/distribution-of-the-workforce-across-economic-sectors-in-india/> (Accessed on May 31st 2022)

⁴ GVA+ Taxes on Products –Subsidies = GDP or Gross Domestic Product.

⁵ "Sector-wise GDP of India", June 17th 2021, <http://statisticstimes.com/economy/sectorwise-gdp-contribution-of-india.php> (Accessed on May 31st 2022)

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In the year 1972, services sector employed 14.8% of the Indian population. It increased to 32.28% in 2019. From the data it is clear that over 40 percent of the population is still dependent on agriculture for livelihood and services sector is able to provide employment to over a third of the population.

A host of factors like rapid urbanization, liberalization and globalization initiatives of the Indian government, increase in per capital income and rapid rise in knowledge workers. These factors have triggered the boom in service sector. Service sector is at present the star performer in the Indian economy contributing about 57% share to India's national income.

Growing Importance of Services Sector

As per UN National Accounts Statistical Data, India was rated as 5th largest economy in terms of GDP in the world in the year 2019. This is in contrast to the 14th position in the year 2006. Though India became 6th largest due to the weakness of rupee, according to many estimates, India to become 3rd largest by 2030.⁶

The Economic Survey highlighted that service sector contributed over 50% to India's GDP and India had a dominant presence in global services exports. It remained among the top ten services exporter countries in 2020, with its share in world commercial services exports increasing to 4.1% in 2020 from 3.4% in 2019.⁷

Example: OTT Sector's Growth

Service sector importance can be witnessed more during pandemic from 2019 to 2022 and beyond. Consider OTT sector, a relatively new segment in Indian service sector. The estimated growth in paid subscriber base of OTT platforms in India from 2019 to 2021 was 65-70%, or a CAGR of about 30%. This sector continued to grow even in 2022 despite uncertainties.

Web series shows like The Family Man 2 and the international series like Money Heist, Squid Game, My Girlfriend is an Alien, have developed a huge fan-base in India. Audience were seeking for good content across India when it was available in a local language, like Jai Bhim, Spider-Man, Squid Game or RRR. About 25% SVOD (Subscription Video on Demand) audience in India were consuming foreign-language content in 2019 but as of Jan 2022 it increased to nearly 40%.

Contd....

⁶ "India to become 5th largest economy in 2025, 3rd largest by 2030", December 26th 2020, <https://economictimes.indiatimes.com/news/economy/indicators/india-to-become-5th-largest-economy-in-2025-3rd-largest-by-2030/articleshow/79964750.cms?>

⁷ "Economic Survey: Service sector contributed over 50% to India's GDP", January 31st 2022, <https://www.livemint.com/economy/economic-survey-services-sector-contributed-over-50-to-india-s-gdp-11643622695809.html>

For details, check out Shailesh Kapoor, 'OTT sector in India will continue to grow even in 2022 despite uncertainties', January 20th 2022, <https://www.exchange4media.com/digital-news/ott-sector-in-india-will-continue-to-grow-even-in-2022-despite-uncertainties-117957.html> (accessed on 4/5/22)

The following reasons are attributed to the rapid development of services sector in India:

- The need for basic services like education, health and medicine, banking, insurance and administrative offices and police and defence has triggered the growth of services sector.
- The development in the agricultural and manufacturing sector has increased incomes and this has created demand for services.
- People are travelling more in search of better job opportunities and high-quality education. Companies too are expanding to other geographic territories. All this has created demand for air and rail travel, transportation and communication.
- A young population empowered with higher education is finding avenues in services attractive.
- The transition from closed to open economy has increased Foreign Direct Investment (FDI) inflows in services.
- Exports of services have also contributed significantly to the growth of service sector in India.

India's Role in the Global Service Economy

Services sector has made substantial contribution to FDI inflows, exports, and employment. According to IBEF, services sector witnessed a Compound Annual Growth Average (CAGR) of 11.43 per cent in 2020.⁸ India had the second fastest growing services sector, just below China's 10.7 per cent. In commercial services exports, India had the highest CAGR of 20 per cent during this period.

Developed countries like USA and European countries dominate the global service economy. However, emerging economies like China and India are now playing an increasing role. India's share in global exports of commercial services increased to 4.1 per cent in 2020 from 1.2 per cent in 2000. It remained among the top ten services exporter countries in 2020.

To sum up, it can be concluded that the striking feature of the growth and performance of the Indian economy during the last two decades has been the potency of service sector. The surfacing of service sector as the most forceful and vibrant sector can be attributed to the service revolution that India is witnessing.

⁸ <https://www.ibef.org/industry/services>, April 2022 (Accesses on May 31st 2022)

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Notwithstanding the significant role of service sector in India's growth, agricultural exports still constitute about 49% of India's total exports. In services sector, the bulk of the employment generated falls in the unorganized sector, where the job security for employees is low.

The emergence of India as a force to reckon with in software and information technology and ITES, i.e., IT enabled services (including call centers, software design, and business process outsourcing) is an achievement indeed. However, growth in services in India is much more than the achievement in the IT field. It is broad-based and almost all sub-sectors of the services sector have grown faster than the GDP of the country and have given the much needed momentum to the Indian economy.

Check Your Progress - 1

1. Which of the following sectors provides maximum employment in India?
 - a. Banking
 - b. Agriculture
 - c. Tertiary
 - d. Manufacturing
 - e. Retail
2. In which of the following sectors, do workers enjoy low job security?
 - a. Service sector
 - b. Manufacturing sector
 - c. Organized sector
 - d. Agricultural sector
 - e. Unorganized sector
3. As a country grows, the contribution of services sector to national income increases, because of various reasons. Which of the following is not a valid reason for the growth of services sector?
 - a. The development in the industrial and agricultural sector cannot continue indefinitely.
 - b. People need fewer products and more services when income increases beyond a point.
 - c. Services sector benefits due to the development in the agricultural and industrial sector.
 - d. Services sector provides employment to the educated and skilled manpower.
 - e. Services sector has low employment elasticity

4. Which of the following reasons could have contributed to increase in FDI in India?
- Transition from closed to open economy
 - Increase in population
 - Increase in GDP
 - Rapid development of services sector
 - Increase in investment in India
-

1.5 Key Services: A Sectoral View

In the year 1951, the contribution of service sector to India's national income was over 30% (Indian official statistics). The services sector of India remains the engine of growth for India's economy and contributed 53% to India's gross value added at current prices in FY22 (until January 2022⁹). It is not the IT and business services sector alone, but a host of other sub sectors that were key drivers of the service revolution. In the next few paragraphs, we take a quick look at the key sub sectors that made the service revolution possible.

Healthcare

The healthcare industry has seen a massive wave of investment, innovation and new entrants from the technology, telecom and consumer industries. In 2021¹⁰ alone, \$44 billion was raised globally in health innovation – twice as much as 2020 – and the acquisition of health and health tech companies rose 50%. Healthcare has become the India's largest sector, both in terms of revenue and employment. According to a Niti Aayog report, the healthcare sector is expected to generate 27 lakh jobs in India between 2017 and 2022¹¹ over 5 lakh new jobs per year. The healthcare industry has been growing at a CAGR of around 22% since 2016.

Medical tourism in India is witnessing a boom and the driving factors for the surge in demand for medical services are the large pool of well-trained medical professionals and the cost advantage India enjoys in providing healthcare and treatment. Apart from Allopathy, indigenous systems such as Ayurveda market is growing at approximately 16 per cent CAGR, Homeopathy and Yoga are getting popular. On the whole, medical tourism in India, is expected to grow to

⁹ <https://www.ibef.org/industry/services>, April 2022 (accessed on 1/6/22)

¹⁰ "Predictions 2022: What are the biggest healthcare shifts? Here's what health experts think", January 17th 2022, <https://www.weforum.org/agenda/2022/01/biggest-healthcare-shifts-experts-expect-to-see-in-2022/> (accessed on 1/6/22)

¹¹ Shuchin Bajaj, "Healthcare industry in 2021: Developments and expectations for 2022, December 31st 2021, <https://health.economictimes.indiatimes.com/news/industry/healthcare-industry-in-2021-developments-and-expectations-for-2022/88578958> (accessed on 1/6/22)

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USD13.3 billion by 2022¹², according to a report jointly published by KPMG India and Google.

Information Technology

Information technology incorporates IT services and Business Process Management under it. IT sector's contribution to GDP has increased from 1.2% in 1998 to 9% in the year 2021¹³. According to NASSCOM (National Association of Software and Service Companies), the sector revenue is estimated to rise by 15.5% to \$227¹⁴ billion in 2021-22.

Globalization has had considerable impact in shaping the IT industry in India. India has captured a major chunk of the global market for technology sourcing and business services and the future of this sector appears bright.

The cities like Bangalore, Chennai and Hyderabad have emerged as IT hubs and the bulk of the revenue from the IT sector comes from these cities. Tata Consultancy Services (TCS), Infosys, Cognizant, Wipro and HCL Technologies have been rated as the top five IT service providers by Gartner¹⁵.

The following are the trends observed in the IT sector:

1. The Indian IT market is getting its revenue through low end exports. As the BPO market has matured, with increase in competition and decrease in profit margins, Indian IT players are competing for high end software jobs in the global market.
2. IT sector provides jobs to about 10 million persons of the Indian population. Most job opportunities exist in metros. IT jobs are gradually shifting from tier one cities to tier two cities. Tier two cities are expected to receive a boost in infrastructure development with the Indian government's commitment to create 100 smart cities. With proper telecommunication infrastructure in place in tier two cities, the shift in jobs will happen at a faster pace.

Thus, there is no denying that IT and ITES industry have played a major role in driving economic growth in the country. The industry has helped India to carve out a name for itself in the global platform. In addition, it has energized higher education by providing employment to millions of Indians.

¹² "Medical tourism in India to grow to USD13.3 billion by 2022", April 5th 2019, <https://www.tourismnewslive.com/2019/04/05/medical-tourism-in-india-to-grow-to-usd13-3-bn-by-2022/> (accessed on 1/6/22)

¹³ "Share of Information technology/business process management sector in the GDP of India from financial year 2009 to 2021", March 2022, <https://www.statista.com/statistics/320776/contribution-of-indian-it-industry-to-india-s-gdp/>

¹⁴ Shilpa Phadnis, "Indian IT sector growing at almost twice the rate of economy", February 16th 2022, http://timesofindia.indiatimes.com/articleshow/89602308.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst (accessed on 1/6/22)

¹⁵ Gartner, Inc. is a global research and consultancy firm.

Media and Entertainment

Media and entertainment, another sub sector of the service sector, includes film industry, music, TV and radio broadcasting, press media and entertainment. The press (including TV) media as a pillar of democracy fine-tunes public opinion in the country and also is an avenue for entertainment. The 'Ministry of Information and Broadcasting' monitors and administers media and entertainment related industries. This sector is also growing at a tremendous pace in terms of both revenue and employment generation. The industry is witnessing strong growth tailwinds and is poised to grow to become a \$55-70 billion industry by 2030¹⁶.

Telecommunication

The telecom service is widely acknowledged as an apparatus to facilitate the socio-economic development of the country. Innovations in telecom are revolutionizing the digital world and as a major enabler of communication, the impact of these innovations is felt in other service sectors like banking, education, transportation and logistics, etc. Thus, telecom has emerged as one of the prime support services required for rapid growth and modernization of various sectors of the economy.

India is the world's second-largest telecommunications market. The total subscriber base, wireless subscriptions as well as wired broadband subscriptions have grown consistently. Tele-density stood at 85.91%, as of December 2021, total broadband subscriptions grew to 792.1 million until December 2021 and total subscriber base stood at 1.18 billion in December 2021¹⁷. Private players hold 89% of the subscriber market whereas BSNL and MTNL, the two public sector operators hold 11% of the market share as of 2021 year end. 'Vodafone-Idea', 'Reliance' and 'Tata-Airtel' are the major players in the telecom industry. The tremendous growth in the Telecom sector has been possible because of privatization and globalization measures, the liberal policies and fair regulatory framework.

FDI limit on telecom sector has been increasing ever since private participation was allowed in telecom in the year 1994. As of 2022, 100% FDI (Foreign Direct Investment) is permitted in the telecom sector. FDI inflow in the telecom sector stood at US\$ 38.25 billion between April 2000 and December 2021.

The growth of mobile telephone network received a boost since the year 2000. Over the years, the number of mobile connections surpassed and surged ahead of land line connections. The big challenge for the telecom industry is that consumers are getting addicted to connectivity and speed. Therefore, mobile service operators are likely to aggressively pursue technological advancements to cater to the increasing demands of the modern, sophisticated consumer.

¹⁶ "Blockbuster Script for the New Decade: Way Forward for Indian Media and Entertainment Industry", January 6th 2022, <https://www.bcg.com/en-in/publications/2022/india-media-entertainment-industry-report> (accessed on 1/6/22)

¹⁷ <https://www.ibef.org/industry/telecommunications>, March 2022 (accessed on 1/6/22)

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Tourism and Hospitality

Tourism is a very important industry for the Indian economy, because it brings in foreign exchange through visits of foreign tourists and also generates employment. During 2019, foreign tourist arrivals (FTAs) in India stood at 10.93 million, achieving a growth rate of 3.5% YOY. During 2019, FEEs from tourism increased 4.8% YOY to ₹ 1,94,881 crore (US\$ 29.96 billion). Between January 2021¹⁸ and April 2021, FTAs was 376,083 as compared with 2.35 million between January 2020 and April 2020, registering a negative growth of -84.0% YOY due to COVID-19.

According to WTTC, India ranked 10th among 185 countries in terms of travel & tourism's total contribution to GDP in 2019. The sector has capacity to create large-scale employment both direct and indirect, for diverse sections in society, from the most specialized to unskilled workforce. Domestic tourism has also emerged as an important contributor to the sector providing much needed resilience.

Banking and Financial Sector

The financial reforms initiated by the Government of India subsequent to 1990 have sparked a boom in the banking sector during the last two decades. The Indian banking system consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks and 96,000 rural cooperative banks in addition to cooperative credit institutions. As of September 2021¹⁹, the total number of ATMs in India reached 213,145 out of which 47.5% are in rural and semi urban areas.

Example: Growth of Fintech Sector

Consider Fintech sector, the most upcoming sector in Indian banking and financial sector. The Fintech adoption was at 87% higher than the global average of 64%, as of 2021. This segment was growing into a market with huge potential. Demographic advantage of having more than 65% of population below 35 years with an appetite for technology and innovations coupled with fast-developing digital infrastructure but low fintech penetration was enticing funding into the startups in the sector. Democratization and problem-solving through technology adoption made start-ups synonymous with innovation and the gateway to India's ambition of a \$5 trillion economy.

For details, check out <https://icfaibytes.in/2021/09/13/from-cheetahs-and-gazelles-to-unicorns-what-drives-the-growth-for-indian-startups/> (accessed on 4/5/22)

¹⁸ <https://www.ibef.org/industry/tourism-hospitality-india>, May 2022 (accessed on 1/6/22)

¹⁹ <https://www.ibef.org/industry/banking-india>, May 2022 (accessed on 1/6/22)

As a result of demonetization and popularity of smartphones, online banking and mobile banking have become popular.

A few of the trends that shape the banking sector in India are:

- (i) **Convenient Banking:** In addition to providing traditional banking services, modern banks offer anytime, anywhere banking service through self-serving channels like ATM, internet banking and mobile banking channels.
- (ii) **Payments:** Compared to developed countries, where credit card payments was higher than cash payments, in India, 80% of payments still happen through cash. However, after demonetization and subsequent government push for digital payment, mobile payment solutions such as digital wallet, P2P transfer applications, etc. are gaining strong user adoption²⁰.
- (iii) **Alternative Lending:** In the banking and finance space, alternative lending is catching up and is fast emerging as a source of capital for SMEs and MSMEs (small and medium sized manufacturing enterprises), who might otherwise face difficulties in obtaining loans on regular terms. While NBFCs such as Bajaj Finance and TATA Capital and other non-banking financial institutions offered credit to needy MSMEs and other individuals in the previous decade, the new revolution in consumer and MSME lending space relies on digital technology. Borrowers can easily access their CIBIL score and have access to loans.
- (iv) **Financial Inclusion:** Financial inclusion has been a priority of the banking policy and accordingly in 2014, the Government of India under the leadership of Prime Minister Narendra Modi unveiled a scheme, “The Jan Dhan Yojana,” the objective of which is to provide a bank account for every Indian household. While India is reckoned as Asia’s third largest economy, but it is estimated that two fifth of the Indian population do not have bank account. This initiative will take banking facilities to remote rural areas in the country. With the objective of furthering financial inclusion, the Reserve Bank of India granted approval to niche and differentiated banks, i.e., small finance banks (SFBs) and payment banks in August 2015. Payment banks will facilitate financial inclusion by providing facilities for small savings, and current deposits and payment and remittance services to low income households, migrant labourers, small businesses and players of the unorganized sector. Small Finance Banks or SFBs will further financial inclusion by serving as vehicles for small savings and by facilitating supply of credit to small and marginal farmers, micro and small industries, unorganized sector entities and small scale businesses.

²⁰ Payment and Settlement Systems in India, 2020,
<https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/PSSBOOKLET93D3AEFDEAF14044BC1BB36662C41A8C.PDF>

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Airlines

The civil aviation industry in India has emerged as one of the fastest growing industries in the country during the last three years. India has become the third largest domestic aviation market in the world and is expected to overtake UK to become the third largest air passenger* market by 2024²¹. India is expected to overtake China and the United States as the world's third-largest air passenger market in the next ten years, by 2030, according to the International Air Transport Association (IATA). Indian Government schemes like 'UDAN' (Ude Deshke Aam Nagrik²²) have also given a fillip to the growing aviation market.

As of 2020, India had 153 operational airports. India has envisaged increasing the number of operational airports to 190-200 by 2040. In October 2021, Tata Sons won the bid to acquire state-run Air India by offering ₹ 18,000 crore (US\$ 2.4 billion) to acquire 100% shares.

Consultancy

The consulting service market is expected to observe a CAGR of 4.30% during the forecast period (2021-2026²³). The COVID-19 pandemic has negatively impacted multiple industries, including the management consulting industry. In order to recover from the impact and adapt to the post-pandemic scenario, consultancies have been devising various work opportunities and new business strategies. There is a growing need for management consulting services, owing to the strong economic growth in the European markets, the regulatory reforms in the financial sector, the outsourcing of back-end operations to low-cost economies, and public investments. Over the forecast period, the faster economic growth, the emergence of digital consulting, and the rise of globalization are expected to drive further growth. The basic service types under consultancy are:

- Operations Consulting
- Strategy Consulting
- Financial Advisory
- Technology Advisory

End-user Industry types for consultancy are:

- Financial Services
- Life Sciences and Healthcare
- IT and Telecommunication

²¹ <https://www.ibef.org/industry/indian-airports-analysis-presentation>, April 2022 (accessed on 1/6/22)

²² 'UDAN' is a regional airport development and connectivity scheme. The objective of the scheme is to let the 'aamaadmi' or the common citizen of the country to fly.

²³ "Consulting Service Market - Growth, Trends, Covid-19 Impact, and Forecasts (2022 - 2027)", 2022, <https://www.mordorintelligence.com/industry-reports/consulting-service-market> (accessed on 1/6/22)

- Government
- Energy
- Other End-user Industries

1.6 Service Sector: Challenges Faced

While there is considerable scope for rapid growth in India's service economy, the following challenges faced have been pointed out by industry observers.

- Industry observers point out that the growth in the industrial and services sector in India is not adequately supported by infrastructure. Many MNCs complain that the infrastructure even in metropolitan cities like Chennai and Bangalore is pathetic. Bangalore and Chennai, which are IT hubs in India, face severe power shortage. Traffic congestion in the roads and the poor quality of other public amenities provided by the corporations is reported as frustrating.
- A good number of jobs generated by services sector are in the unorganized sector.
- India has a tremendous potential to attract foreign tourists. Here again, poor infrastructure, lack of civic sense and etiquette amongst persons in the tourism industry frustrate foreign tourists.
- Airlines and railways too need to gear up their service and provide quality service to enable higher numbers of foreign tourist arrivals (FTAs).
- It is imperative that industrial and agricultural sectors also grow in tandem to support a higher level of growth of services.
- Indian BPO services are facing stiff competition from other Asian countries. As salaries increase in India, the cost advantage is lost. Hence, competitive advantage needs to be built at the higher end.

Example: Indian BPO Service: Challenge from the Philippines

According to Ralf Ellspermann, CEO of PITON-Global an award-winning BPO firm, Philippines emerged as an important challenger to India's BPO dominance as the world's biggest outsourcing destination as of Dec 2021. Philippines had a robust education system and cultural links to the West, there was a high level of English fluency among Filipinos, frequently with little to no accent. Hence more businesses from the US, UK and Australia, have chosen the Philippines for their call center outsourcing needs over India. As of Dec 2021, Indian BPO industry was facing a stiff challenge from the Philippines and other nations keen to get their share of the US\$250 billion outsourcing market.

For details, check out: "BPO in India: The Challenges of Outsourcing", December 28th 2021, <https://www.telegraphindia.com/business/bpo-in-india-the-challenges-of-outsourcing/cid/1845218> (accessed on 9/5/22)

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- g. India is a major exporter of services. However, its export competitiveness lies in a few areas and in few markets.
- h. While demographic dividend is cited as an advantage, it is a paradox that India's service industry also faces problems of labor and skill shortage. Industries (service organizations included) are reporting that very often they are not able to meet orders on time due to such shortages.

Activity 1.2

Dhruv Mehta, a kid studying at an international school, uses the school bus services. In the past, his mother Dr. Sonam Mehta, had to wait in the chilling cold mornings to put him in the bus. If it did not turn up, she had to avail an unwanted holiday. But these days, Dhruv, his mother and their maid get WhatsApp messages about the bus services on a daily basis. Not just that, Mrs. Mehta's phone is enabled with a tracking system which facilitates her and other parents to locate the bus in the morning time, and send the kid to the bus stop on time instead of waiting at the stop for hours. Which "change" factors influence the growth of service sector enabled parents with a hassle-free transportation?

Answer:

1.7 Regulatory Framework for Services

The Government of India has been initiating changes in the policies and regulatory framework to keep abreast with the changing trends in the services sector in the domestic and global context. Major changes in economic policies to kick start the liberalization, privatization and globalization measures were initiated in the year 1991. These changes have given a boost to the services sector. The following changes in government policies have been initiated since 1991 to promote and regulate services, and simultaneously to protect the interests of various stakeholders.

Insurance, telecom and banking sectors were opened up for participation to private players. This initiative paved the way for increase in private domestic investment and Foreign Direct Investment (FDI) in these areas.

Insurance Regulatory and Development Authority (IRDA): IRDA was set up as the apex body to oversee insurance business in India. It was set up to protect the interests of the policy-holders and regulate and promote insurance business in India.

Telecom Regulatory Authority of India (TRAI): Telecom Regulatory Authority of India (TRAI) endeavors to encourage efficiency and competition in the telecom sector. TRAI Act 1997 regulates telecom services by fixing and revising the tariffs of telecom services in India. With a mission to create and nurture conditions for growth of telecom sector, TRAI provides a fair transparent policy environment. The objective is to provide a level-playing field to all players in the telecom sector and facilitate fair competition.

Example: New Regulation from TRAI

As of March 2021, the Telecom Regulatory Authority of India (TRAI) defaulter list for registering with new SMS templates and following all the new regulations was released. It consisted of big players such as State Bank of India (SBI), ICICI Bank, HDFC Bank, Samsung, Life Insurance Corporation (LIC), and Delhivery for not following the regulations. TRAI ordered Telecom companies to block pesky SMSes from April 1, 2021, wherein above-mentioned banks and companies won't be able to deliver their SMSes containing important information such as OTPs and more to their customers. It was a heavy punishment for the companies involved as it caused a major disaster for their customers and business. Advantage for the customers was that companies would reduce the pesky messages to customers in future and customers will be free from such messages.

For details, check out: Tanay Singh Thakur, "Trai Says SBI, HDFC and More Banks on SMS Regulations Defaulter List", March 27th 2021, <https://telecomtalk.info/trai-sbi-hdfc-sms-regulations/347539/> (accessed on 9/5/22)

With a view to promoting FDI and FII and boost foreign trade in services, Foreign Exchange Management Act (FEMA) replaced Foreign Exchange Regulation Act (FERA). FEMA liberalized foreign exchange controls and restrictions on foreign investment. The rapid increase in exports of services (services sector contributes 31% to the total exports) and increase in FDI in service sector could be attributed to the liberalization initiative through FEMA.

In order to ensure that free and fair competition is encouraged, the Monopolies and Restrictive Trade Practices Act was scrapped and replaced with the Competition Act. The rules and procedures to start companies have been liberalized, thus removing entry barriers.

E-Com business is considered to be a fledgling business in India, but its rapid growth is bringing to the fore, the lack of clear-cut regulation on matters like taxation, pricing, payment process, registration of business, accountability and liability for goods sold, etc. At present the Information Technology Act 2000 which is based on United Nations Commission on International Trade Law (UNCITRAL), governs E-Commerce activities in India.

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Service tax categorized as an indirect tax came into existence under the Finance Act 1994. Earlier, service tax was levied only on certain services. In the 2012 budget, the scope of service tax has been increased to include most services under the tax net. A host of services like air-conditioned restaurants, hotels, private guest houses, lodging services, services of chartered accountants, legal firms etc., were in the following years brought under the net of service tax.

In March 2017, the 'Goods and Services Tax' or GST was passed in Indian parliament. GST is an indirect tax levied on the supply of goods and services. This would replace many indirect taxes like Central Excise Law, Service Tax Law, VAT, Entry Tax, Octroi, etc., that previously existed in the country. This tax which also amalgamates the various State and Central taxes into a single tax is considered as a great tax reform that would usher in a common national market. GST rates on various goods range from 0% to 28% (0%, 5%, 12%, 18% and 28%).

To sum up the changes in the legal environment entails scrapping of outdated laws like MRTP 1969 (Monopolies and Restrictive Trade Practices Act), FERA 1973 (Foreign Exchange Regulation Act) and replacing them with Competition Act 2002 and FEMA 1999 (Foreign Exchange Management Act), to keep pace with changing times. Opening up of certain industries like Telecom and Insurance for private participation has led to the setting up of regulatory bodies like TRAI and IRDA. In order to increase tax revenue by capitalizing on the rapid growth of services industry, the scope of service tax has been widened. The rapid growth witnessed in E-Com sector calls for enacting of new laws to regulate E-Com.

Activity 1.3

Collect data pertaining to GDP, employment and exports and study the contribution of agricultural sector, industrial sector and service sector to India's GDP, employment and exports. Also study the employment elasticity and export elasticity of services in relation to increase in GDP.

If agriculture is providing employment to 50% of the population and if agricultural exports still constitute 49% of exports, do you think agricultural sector is not getting the importance it deserves? Do you feel the Government of India is giving more importance to service sector than what it deserves?

Answer:

Check Your Progress -2

5. Which of the following sectors contributes maximum to the India's GDP?
 - a. Manufacturing sector
 - b. Agricultural sector
 - c. Mining sector
 - d. Textile sector
 - e. Services sector
 6. Which of the following service sectors has attracted the highest foreign direct investment inflows into India?
 - a. Chemicals other than fertilizers
 - b. Transportation
 - c. Food processing
 - d. Healthcare
 - e. Telecommunication
 7. Which of the following statements is true?
 - a. Service sector provides more employment to persons as compared to agriculture
 - b. Employment in the service sector has increased to the same extent as that of contribution to GDP.
 - c. Industry sector has greater employment elasticity
 - d. Industry sector provides more employment than agricultural sector
 - e. The employment elasticity of service sector is greater than of industrial sector
 8. Which of these statements is not true of services?
 - a. The activities in the primary, secondary and tertiary sector are not dependent on each other.
 - b. Services sector is more sustainable as compared to industry because it consumes less resource.
 - c. Services sector contributes more to India's exports as compared to industrial sector.
 - d. Demographic dividend gives India a competitive advantage over other countries in services.
 - e. Services sector is the fastest growing sector in the Indian economy.
-

1.8 Summary

- With rapid growth and development in the global economy, the world has moved from agricultural age to industrial and to service age. It is evident that services hold immense potential to accelerate the growth of a global economy and increase the per capita incomes of the people. The Indian economy too is discovering its right place in the global economy given that its service sector is making rapid strides and taking the economy forward. The role of service sector in providing employment opportunities to its educated and skilled population is noteworthy. A host of sub sectors apart from IT and software are growing at a fast pace to drive the service revolution in India.
- Service sector has its shortcomings as well. There is no denying that service sector provides employment, but, the growth in employment in service sector is not commensurate with the increase in the share of the sector in the country's GDP. A good number of jobs generated by services sector is in the unorganized sector. India is a major exporter of services. However, its export competitiveness lies in a few areas and in few markets. Notwithstanding these shortcomings, there is no doubt that the growth in service sector is likely to take Indian economy to greater heights in the economic growth trajectory.

1.9 Glossary

CAGR: Compound annual growth rate is a useful measure of growth. When growth has to be measured and represented over a certain time period, this measure is useful.

Demographic Dividend: Demographic dividend is a period (usually about 20 to 30 years) during which the economy of a country reaps the benefit of falling fertility rates. The proportion of the youngsters in the total population is high during this period.

EMDE: Emerging markets and developing economies

FTA: Foreign tourist arrivals

IATA: International Air Transport Association is an association representing and serving the airline industry worldwide

NASSCOM: NASSCOM (National Association of Software and Services Companies) is the premier organization that represents and sets the tone for public policy for the Indian software industry.

Organized Sector: A place of work, say an enterprise, where the terms of employment are regular, and therefore, people have assured work.

Servitization of Products: Product marketers use a higher component of services while marketing products. This is known as servitization of products.

Tertiary: Tertiary literally means ‘of third rank or order’. In traditional times agricultural and industrial sector dominated the economy and service sector’s role was tertiary. Now the roles have reversed.

TRAI: The telecom regulatory authority of India is the independent regulator of the TELECOM industry.

Utilities: Utilities like water, electricity transmission and distribution, gas etc.

1.10 Self-Assessment Test

1. How is the tertiary sector different from agricultural and industrial sector? Explain.
2. Do you agree to the statement that “Tertiary sector will be instrumental in generating employment in the present and future”? Give reasons in support of your answer.
3. Write a note on servitization of products. Why are companies using services to differentiate their brands and gain competitive advantage?
4. What is the contribution of services sector to the country’s exports? Also write about FDI in services and its impact on the national economy.

1.11 Suggested Readings/Reference Materials

1. Jochen Wirtz, Christopher H. Lovelock (2021). ‘Services Marketing: People, Technology, Strategy’ (Ninth Edition), World Scientific Publishing Co Inc. (USA).
2. Valarie A. Zeithaml and Mary Jo Bitner (2018). Services Marketing: Integrating Customer focus across the Firm. Seventh edition. New Delhi: McGraw-Hill Education.
3. Dr Ravikumar K (2020). ‘Marketing and Services Management’, Notion Press.
4. Dr. Subramaniam Seshan Iyer (2021). ‘Marketing of Healthcare Services: A reference book’, Notion Press.
5. Dr Manita Matharu, Dr Manish Joshi and Dr P Jagadeesan (January 2022), ‘Service Marketing’, Red'shine Publication Pvt. Ltd.

1.12 Answers to Check Your Progress Questions

1. (b) Agriculture

Services sector provides maximum employment worldwide. But, in India, while services sector contributes maximum share to GDP, it is the agricultural sector that continues to provide maximum employment.

2. (c) Organized sector

Workers enjoy maximum security in organized sector and least security in unorganized sector.

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3. (e) Services sector has low employment elasticity

As a country develops, service sector's contribution to national income increases. All the reasons stated in a, b, c and d are responsible for this trend. Option 'e' which states that service sector has low employment elasticity is an incorrect statement. As compared to agricultural sector its employment elasticity is low, but compared to manufacturing sector, its employment generation capacity is high. Also low employment elasticity will stand in the way of the growth of service sector. It will not actively contribute to service sector's growth.

4. (a) Transition from closed economy to open economy

The Indian economy transitioned from a closed economy to open economy. This change in the Indian Government's economic policy paved the way for Foreign Direct Investment.

5. (e) Services sector

Service sector which contributes over 50% to India's GDP contributes maximum to India's GDP as compared to agriculture and industrial sector.

6. (e) Healthcare

The answer is telecommunications sector. Ever since India liberalized the telecommunication sector in the year 1994 and subsequently permitted 100% FDI in the sector, the foreign direct investment inflow into this sector has been increasing. In the year 2018, the telecom sector (which received \$6.2 billion as foreign direct investment inflows) attracted highest FDI in India.

7. (e) The employment elasticity of service sector is greater that of industrial sector

The employment elasticity of service sector is greater than that of industrial sector. This is because, while machines can replace humans in performing jobs and tasks in production activities, there is very limited scope for this to happen in services, because service is people-oriented.

8. (a) The activities in the primary, secondary and tertiary sector are not dependent on each other

Statement 'a' is incorrect and all other statements are true. Services sector is dependent on both agricultural sector and industrial sector. Services sector depends on the incomes generated by other two sectors to sustain demand. To a very large extent, all the three sectors are inter-dependent.

Unit 2

Understanding Services

Structure

- 2.1 Introduction
- 2.2 Objectives
- 2.3 Factors Influencing the Growth of the Service Sector
- 2.4 Services Defined
- 2.5 Tangibility Spectrum
- 2.6 Characteristics of Services
- 2.7 Generic Differences between Goods and Services
- 2.8 Classification of Services
- 2.9 Developing Frameworks for Analyzing Services
- 2.10 Myths about Services
- 2.11 Summary
- 2.12 Glossary
- 2.13 Self-Assessment Test
- 2.14 Suggested Readings/Reference Materials
- 2.15 Answers to Check Your Progress Questions

“Quality in a service or product is not what you put into it. It is what the customer gets out of it.”

– Peter Drucker

2.1 Introduction

As quoted rightly by Peter Drucker, the services offered by an organization to its customers should add more value to customers for achieving great success in the business. The main difference between a product and service is that service is intangible. Certain characteristics of services like intangibility, inseparability, heterogeneity, and perishability set them apart from products. While formulating strategies for marketing of services, marketers must focus on three additional Ps, viz., People, Process, and Physical evidence apart from the 4Ps of marketing products.

In the previous unit, we introduced students to the service economy and various national and global service economy trends. This unit introduces students to services. Over the years, the marketing of services has been gaining importance.

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This unit will discuss the factors that have contributed to the growth of the service sector, and provide you with a definition of services. It will then move on to discuss the characteristics of services and the differences between goods and services. It will also discuss the various classifications of services, and explain how to develop frameworks for analyzing services. Finally, some myths regarding services will be taken up.

2.2 Objectives

After studying this unit, you will be able to:

- Identify factors influencing the growth of the service sector
- Define services
- Explain the tangibility spectrum that differentiates a service from a product
- State the characteristics of services
- Determine the generic differences between goods and services
- Classify services
- Explain how to develop frameworks for analyzing services
- Discuss the myths about services

2.3 Factors Influencing the Growth of Service Sector

In the earlier unit we discussed the broad trends in services industries like telecommunication, banking, IT, tourism, airlines, etc. Given below are some of the factors that have influenced the growth of the service sector.

2.3.1 Demographic Changes

The demographic changes taking place in a country have a significant influence on the growth of the service sector in the country. There are three phases of demographic growth, which have relevance to the growth of services. In the first phase, the rate of mortality and fertility decrease. In this phase, the number of births in a year decrease and people live longer. In the second phase, the percentage of young persons in the population increases. If adequate employment opportunities are available for them, they will have surplus disposable income to spend after spending on essential commodities. With the surplus income the youth are likely to spend on services like transportation, food retail, entertainment, travel and tourism and other services. Thus, the services sector is likely to witness a surge in demand in this phase. In the third phase, the number of older persons in the country increases. People have greater awareness and as a result they start saving for the future and the post-retirement period of their life. Therefore, in the third and final stage of demographic development, older people who are affluent and also have leisure time to spend their savings on various services constitute an important segment for the service industry.

Many of the developed countries like the US, the UK and Japan are navigating through the late second phase or early third phase of demographic growth. But the developing countries still continue to be in the first phase or early second phase. India, for instance has just moved from the first phase and entered the second phase of demographic growth. The services sector in India is bound to benefit by the rapid increase in the population of youth. This explains the phenomenal growth in service industries like banking, insurance, airlines and the hospitality industry in India.

Example: Advantage of Demographic Changes to Indian Fintech Sector

Fintech sector was the most upcoming sector in Indian banking and financial sector. The Fintech adoption was at 87% higher than the global average of 64%, as of 2021. This segment was growing into a market with huge potential. India's demographic advantage was having more than 65% of population below 35 years. This population had an appetite for technology and innovations coupled with fast-developing digital infrastructure. But low Fintech penetration was enticing funding into the startups in the sector. These factors influenced the growth of service sector in India. The year 2020 witnessed 11 start-ups from India joining the Unicorn club. By the end of August 2021, 24 start-ups have already joined the club. At this rate, India would have more than 100 unicorns by the end of 2023.

For details, check out "From Cheetahs and Gazelles to Unicorns – What Drives the Growth for Indian Startups?", September 13th 2021, <https://icfaibytes.in/2021/09/13/from-cheetahs-and-gazelles-to-unicorns-what-drives-the-growth-for-indian-startups/> (accessed on 10/5/22)

2.3.2 Social Changes

The standard of living of people around the world has improved significantly. This also holds for several developing countries. In India, more and more women are entering the workforce thus increasing the number of double-income households among the middle class. As a result, the disposable incomes of middle-class families have increased phenomenally creating a host of opportunities for service industries. With more women entering the workforce and increase in the number of dual income families, day care centers and child-care and related services are expected to witness rapid growth. The healthcare, education and entertainment industries are also growing fast and so is retailing. There are many more takers for convenient shopping in malls on account of the busy lifestyle of working people in urban areas. These malls make available a variety of products and services under one roof, and the consumption of products as well as services expands. Shoppers' Stop and Lifestyle are two leading retailers in India. They have outlets in several cities across the country.

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

2.3.3 Economic Changes

In the 20th century, many socialist countries, particularly Russia have moved away from socialism and embraced capitalism. As a result of change in economic policy and as a consequence of withdrawal of government control over services private sector participation in services such as finance and real estate has increased. Private sector participation has not only improved the quality of service, but also provided greater choice to customers and brought about rapid growth of these service industries. Prior to this transformation, public sector monopoly in these service industries restricted supply of these services and also simultaneously curbed the growth of these services.

Globalization is one of the key factors that has led to the growth of service sector. With many developing countries removing cross-border trade barriers, inflow of capital from developed countries to developing countries has increased considerably. Many leading MNCs have opened shop in India giving a boost to its services sector. The greater inflow of capital can lead to an increase in the provision of financial services. The series of steps initiated by the RBI (Reserve Bank of India) have resulted in interest rates coming down and as a result, the demand for personal finance services has also increased. For example, there has been a tremendous growth in the demand for home, educational and other personal loans. As more and more Indian firms are now able to enter other countries due to reduced trade barriers and exploit the business opportunities there, the demand for services of Indian firms has also increased.

2.3.4 Technological Changes

Advances in IT (information technology) have also contributed to the growth of the service sector. Technology has impacted the way after-sales-services are delivered in the country. In the past, the responsibility of a company ended once the product is shipped to the customer. But now, firms see that there is tremendous scope for differentiation in the delivery of after-sales and support services. For

example, Federal Express, a leading US-based shipping company, not only ensures that the items sent by its customers reach the destination on time, but also enables customers to track the shipping status of the consignment from time to time on its website. With the help of sophisticated technology, firms like Dell and Microsoft offer valuable support services to their customers. Dell enables customers to seek online assistance from its expert technicians to resolve their system related problems. All these technological advancements contribute to the growth of services in an economy.

2.3.5 Political and Legal Changes

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

2.3.6 Policy Changes

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

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

In the late 1990s, the government's move to improve the legal and regulatory framework in the country also spurred the growth of foreign service providers in India. For instance, India enforced copyright law in May 1995. In 2003, a law was passed to offer protection to the logos and trademarks of service providers which was not existent till then. The changes in India's trade and economic policies have resulted in many leading global players in diverse areas like

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automobiles, fast food joints and financial services setting up their shop in India. Leading software companies like Microsoft and Oracle were also allowed in and have established software development centers in India.

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

2.4 Services Defined

Adrian Payne (Professor of Marketing at the University of New South Wales) has defined service as an activity that has an element of intangibility associated with it and which involves the service provider's interaction either with the customers or with the property belonging to the customer. The service activity does not involve the transfer or ownership of the output.

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

The definition makes clear that services are those activities which satisfy wants. Certain services are offered as main service while certain other services are offered to supplement or support a product purchased or a main service purchased by the customer. While it can be said that services are intangible, often some tangible goods are also offered to supplement or support the main service.

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

Example: Characteristics of Services: The Example of IKEA

Consider IKEA, world's reputed furniture retailer with a global revenue of nearly 42 billion Euros. It operated 458 stores in 52 countries as of 2021. Around 775 million customers visited IKEA stores in 2021. IKEA offers furniture and furnishing products for all areas of the home and also sells outdoor and office products. Even though the characteristic of retail services of IKEA is intangible, it is offering furniture for sale in its retail stores and e-commerce sites which are tangible products.

For details, check out C. Simionatoa, “IKEA – Statistics & Facts”, March 7th 2022, <https://www.statista.com/topics/1961/ikea/#dossier> Keyfigures (accessed on 10/5/22)

2.5 Tangibility Spectrum

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

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

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

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

Example: Iris Educare's Service Tangibility Spectrum

Iris Educare is one of the leading child-centric education providers in south India. Iris Florets is the flagship play school chain of the group and strives to advance and transform schooling practices in India. Iris Daycare provides its services to offer children a safe abode away from home. Its Daycare engages a child's complete day filled with activities, some free time, and also offers food and naps for the children. Though it is a major service provider, by offering food, naps etc. its major service is accompanying minor goods and services.

For details, check out <https://www.irisflorets.com/about-iris.php>, May 2022 (accessed on 10/5/22)

- **A pure service:** Surgery, consultancy and teaching are pure services.

2.6 Characteristics of Services

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

2.6.1 Intangibility

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

People have varying expectations with regard to the same service. Also, since the quality of the service is relative and difficult to measure due to the intangibility factor, it is difficult for service organizations to determine quality standards and promote and market services accordingly. Let us take the case of a bank, wherein some customers may be given personal attention by customer service executives. This by itself could be an aspect that signals service quality by certain customers, while some other customers may consider faster transactions more important. Since customers are different, their service expectations from the service provider are also different, the service provider faces difficulty in determining what needs to be offered to ensure complete customer satisfaction.

As compared to product marketers, service marketers face difficulty in ensuring consistency in service delivery. For example, a product-manufacturing company like HLL can ensure that all the units of soaps manufactured by it are of same quality. This task of standardization is not easy for a service organization such as Prudential Insurance Company. Every time a customer approaches the organization, the quality of service depends on a host of factors like the skills and capabilities of the service executive, his own limitation, aspects like the mood of the customer, etc. However, service organizations are employing stringent measures to standardize service quality.

2.6.2 Heterogeneity

A machine can produce units which are uniform and homogeneous in size, shape and quality. But this consistency in performance cannot be achieved by a human being. Since a service is offered by a human being, there is a high probability that the same level of service may not be delivered all the time. The service offered

by one employee may differ from the service offered by another although they may belong to the same company. Even the service offered by the same employee may be different at different times of the day. After serving customers continuously for several hours during the day, an employee may not be able to offer the same level of service towards the end of the day. Also, the quality of service offered by employees at one branch of a service organization may differ greatly from the service offered at another branch. But if the variation in service quality becomes extremely obvious, customers may be dissatisfied and switch to a competing firm. Also, the customers may not be able to predict the level of service they would obtain from the firm, the next time they visit it. Hence, service organizations should try to maintain consistency in the services they offer by taking special care in recruitment, selection and training of employees.

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

2.6.3 Inseparability

A service is consumed by the customer after delivery of the service. Hence, production and consumption occur simultaneously in case of services as opposed to products which are manufactured, inventoried and then consumed. Services cannot be inventoried and need to be consumed immediately. Since the delivery and consumption of a service occur instantaneously, during service delivery there is a lot of interaction between customers and employees of a service organization. For instance, the interaction between patient and doctor assumes importance while a patient is treated for a disease or an illness. In the case of a hotel or restaurant, the interaction between the server and a customer occurs while the former takes the food-order and serves it to the latter for consumption. As a result, customers' perception of the quality of service offered by the organization is impacted by the interaction with service providers during service encounters. Therefore, service organizations should invest in training and motivating of employees to facilitate standardized service delivery. Front-line employees should be given training so that they develop professionalism in their approach towards the customers. Front-line employees need to be courteous while they talk to customers and also patient in dealing with queries.

2.6.4 Perishability

As in the case of products, services cannot be stored or inventoried for future consumption. Let us understand this concept by taking the case of a hotel which has 40 rooms. If, on a particular day, only 10 rooms are occupied, then there is an idle capacity of 30 rooms on that day. For the hotel management, this is a lost

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business opportunity. Even if the hotel is fully booked the next day, the 30 rooms kept idle is a lost opportunity forever that can never be recovered in the future.

Let us understand this concept through another example of a showroom which recruited 10 additional sales persons during a festival season to serve customers. If for some unpredicted reason, customers do not turn up in the large numbers as expected, the showroom owner incurs a loss because of the excess service capacity. In both the cases illustrated, the organizations lost opportunities to earn revenue, primarily due to a characteristic of services, which is, 'perishability'. Thus, the perishability of services is a key factor that makes marketing of service more risky and complex. Service organizations therefore, need to be very cautious in forecasting demand and sales trends and make plans for service delivery accordingly. All possible factors that influence the demand for a service needs to be considered. Also, the service provider needs to avoid both excess or shortage of capacity to meet demand.

Example: Concern in Hospitality Industry: Perishability of Services

During pandemic from 2019 to 2021, the biggest problem in hospitality industry was perishability of services due to external environmental factors like economy and competitors. Post 2021, the perishability was due to competitors like Airbnb. According to a report from Hospitalitynet, the valuation of Airbnb was well over \$10 billion which was even higher than a lot of large hotel chains in the world like Hyatt as of 2022. Airbnb was an apartment sharing service provider through its website. It provided customers with rooms/units at very much the same rates as new hotels or cheaper. Hence the hotels were losing business opportunities and also experiencing losses due to their excess service capacity being idle due to companies like Airbnb.

For details, check out: "6 Major Hotel Industry Challenges in 2021", February 11, 2022, <https://www.soegjobs.com/hotel-industry-challenges/> (accessed on 11/5/22)

Check Your Progress - 1

1. With the opening up of the Indian aviation sector in the 1990s, private sector companies like Indigo and Jet Airways made their entry into aviation sector leading to a change in the landscape of the aviation sector in India. Which of the following factors led to the resultant growth of the aviation sector?
 - a. Demographic changes
 - b. Social change
 - c. Cultural change
 - d. Technological changes
 - e. Economic and policy changes

2. Services have a strong characteristic which poses certain challenges in marketing services to customers. To overcome the challenges posed by this inherent characteristic associated with it, service providers facilitate interaction either with the customers or with the property belonging to the customer. Which of the following characteristics of services are we talking about?
 - a. Uniformity
 - b. Tangibility
 - c. Separability
 - d. Intangibility
 - e. Portability
 3. Identify the statement/s that does/do not hold true regarding services.
 - a. Service as an activity has an element of intangibility associated with it.
 - b. The service activity involves the transfer or ownership of the output.
 - c. Services are intangible but sometimes they may involve the use of tangible goods.
 - d. Service is an activity that involves the service provider's interaction either with the customers or with the property belonging to the customer.
 - e. Services involve greater customer interaction.
 4. Which of the following can be categorized as a tangible good with accompanying service?
 - a. A laptop
 - b. Vegetables
 - c. A hair salon
 - d. A baby crèche
 - e. A cool drink
 5. Ram is a waiter at a restaurant. He works from 7 am till 10:00 pm. He is generally energetic and works quickly till 5pm after which his service slows down. Also, his behavior with the regular customers is quite different from his behavior with other customers. Which feature of service is being discussed in this example?
 - a. Intangibility
 - b. Inseparability
 - c. Heterogeneity
 - d. Perishability
 - e. Inventory
-

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Activity 2.1

Speaking about the continuing poor financial performance of an airline for the past seven quarters, a marketing research analyst said, “The failure can be attributed to the airline’s lack of focus on one of the key characteristic of a service industry – “perishability”, which led to a lower occupancy rate, i.e., the airline realized less sales volumes per flight.” What are the key characteristics which make services marketing different from product marketing? Which of them will affect the airline industry most?

Answer:

2.7 Generic Differences between Goods and Services

The characteristics of services that were discussed in the above section are not necessarily applicable to all services. Therefore, they cannot be used as standards to distinguish a product from service. Therefore, Lovelock attempted to classify services based on factors such as the nature of the product, customer involvement in the production process, people as part of the product, quality control problems, difficulty in evaluation, absence of inventories, importance of the time factor, and nature of distribution channels.

2.7.1 Nature of the Product

Leonard L. Berry defined a 'good' as an object, a device or a thing and a 'service' as a deed, a performance or an effort. A product can be a pure *tangible good* like a pencil, cup or car battery, or a *tangible good supplemented by some services* like a fax machine with after-sales service, or *services supplemented by a tangible good* like books provided by a distance education institute to students, or a *pure service* like hair-cutting. The strategies adopted by marketers for marketing each of the above products will vary greatly. The marketer of a tangible good emphasizes on the quality and functionality of the product. For example, Eveready emphasizes the quality, longevity and reliability of its car battery and its 3-year warranty period. Fuji-Xerox emphasizes on productivity and cost efficiency of its fax machine and also offers after-sales service to the customers.

2.7.2 Problems in Quality Control

The intangible nature of services makes it difficult to define and establish specific standards for delivering quality service. Moreover, perception of quality differs from one customer to another. For example, let us say a hotel serves tasty food, the ambience is good and the waiters too serve their customers with a smile. However, a particular customer may experience dissatisfaction with the hotel's service quality if the waiters do not assist him in finding a vacant table or fail to take orders quickly, if these services matter more to him at that time. In contrast,

another customer may ignore all these aspects of service if the food is tasty and may express his/her satisfaction with the quality of service.

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

2.7.3 Involvement of the Customer in Production and Delivery

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

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

Example: Involvement of Customer @ Starbucks

Starbucks, the international coffee chain, was generating more revenues by involving customers in its production and delivery. Through its open innovation forums like MyStarbucksIdea.com, launched in 2011, Starbucks engaged with and ultimately created engaged customers. By involving customers in refining products and store experiences, the company successfully tapped into the brain power of millions of its diverse customers. By implementing the program, the company had implemented several ideas. Latest ideas included: Digital Mobile Payment Drive-Thrus, Free Birthday Treat (for customers), Cake Pops – More than 5,800,000 cake pop treats enjoyed each year and free Wi-Fi – 7,500 Starbucks locations in the US and Canada have WiFi that can be accessed with just one click and at no cost.

For details, check out: Coby Skonord, “My Starbucks Idea Creates Mobile Drive-Thru, Cake Pops, and More”, January 19th 2021, <https://ideawake.com/my-starbucks-idea-creates-mobile-drive-thru-cake-pops-and-more/> (accessed on 11.05.22)

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2.7.4 Absence of Inventories

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

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

2.7.5 Structure and Nature of Distribution Channels

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

2.7.6 Importance of Prompt Service

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

2.7.7 Difficulty in Evaluating Service Quality

Unless and until a person experiences a service, it is difficult to determine the service quality. Hence, customers find it difficult to evaluate the quality of service

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

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

2.8 Classification of Services

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:

2.8.1 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:** In this service-type, customer involvement in the service process is very high. The customer needs to be physically present to experience the service and to enable the service delivery. In people processing, since the service is directed at the customer, his/her participation in service delivery is crucial. Example: Haircutting salons, beauty parlors, airlines, etc.
- **Possession processing:** The customer need not be present to experience the service, but, he/she may have to temporarily transfer possession of property to the service provider for the latter to deliver the service. Repair of machines, upgradation of devices could be cited as examples. In these examples, it can be understood that the service is directed at the possession and not at the customer.
- **Mental stimulus processing:** In mental stimulus processing, the service is directed to the customer's mind. For example, in the case of a movie, a customer's mental faculties and sense organs are engrossed in the movie as he/she watches and enjoys the movie. The customer thus needs to pay attention and be mentally stimulated to facilitate service delivery. A religious discourse, counseling sessions, schools, colleges, etc. could be cited as examples.
- **Information processing:** In this service type, the service personnel have to collect data/information, analyze and interpret it and based on the analysis, offer appropriate solutions or advice to the client. Example: Legal services, banking, consultancy, etc.

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2.8.2 Classification based on the Service Tangibility

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

- **Highly tangible:** In these services, the customer obtains a tangible product in hand, though it may sometimes last for only a small period.
- **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:** Tangible products or goods are offered along with the primary service to complement the former. This offer of tangible goods is often done as a part of the service package or sometimes even on the request of the customer.
- **Highly intangible:** These services offered are highly intangible in nature and customers are not offered any tangible product along with the primary service.

2.8.3 Classification based on Skills and Expertise Required

Based on the skills and expertise required to offer the service, services can be categorized as given below:

- **Professional services:** These services require that the service provider acquires qualifications or undergoes formal training to acquire the required proficiency to deliver the service. Example: Doctor, chartered accountant, consultancy, etc.

Example: Professional Services @ Batliboi & Purohit

Batliboi & Purohit, Chartered Accountants was one of the oldest Chartered Accountants practicing in India founded by late Mr. J. R. Batliboi who had authored the first accounting text book in India. As of 2022, the firm had 12 partners and more than 200 staff offering professional services. It provided services like statutory, internal, forensic, transaction, IT audits, domestic (direct and indirect) and international taxation, FEMA, SEBI and MCA compliances, IFRS implementation, Due Diligences, Valuations etc.

For details, check out: <https://in.linkedin.com/company/batliboi-&-purohit?>, May 2022 (accessed on 12.05.22)

- **Non-professional services:** These services do not require the service provider to be qualified or certified to showcase knowledge or skills in a specialized field.

2.8.4 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:** The primary objective of a not-for-profit organization is service to society. Hence, these services are not rendered with profiteering or money-making as objective, but 'service to society' as objective. Example: Religious organizations, educational trusts, orphanages, home for destitute, etc.
- **Commercial organizations:** These are services in which the main objective of the service provider is to earn revenues and make profits.

2.8.5 Classification based on the Type of End-User

Based on the customer-type, services can be classified into following categories:

- **Consumer services:** In this service-type, individual customers purchase services for their own individual consumption. Example: Customer visiting a hospital for an ailment.
- **Business to Business (B2B) services:** As the name itself suggests, these services are marketed to business or institutional customers. Example: Business Process Outsourcing, software sold to businesses, etc.
- **Industrial services:** Industrial services are those where there is a binding contract between organizations and service providers. Example: Maintenance services.

Activity 2.2

With an increase in the postal rates and the bulk courier rates, local companies have started switching to courier services. In this kind of situation, there could be increased opportunities for individuals also to start courier firms. Based on customer involvement, under which category do courier and postal services come? What type of services can a courier company offer based on the type of end-user?

Answer:

2.9 Developing Frameworks for Analyzing Services

Grouping of services using the right basis enhances the ability of managers to solve complex problems they face in marketing services. Let's first observe how classification of goods has improved the ability of managers in manufacturing

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firms to solve marketing problems. In the beginning, goods were classified into convenience, shopping and specialty goods. This classification enabled product managers to improve their organizations' distribution systems and serve customers' needs better. Later, another classification suggested that goods could also be divided into durable and non-durable goods. The classification enabled manufacturers to improve their distribution as well as communication strategy. Later, classification of goods into consumer goods and industrial goods emphasized the differences in the behavior of the customers of these goods, and the way they evaluate the products and purchase them. The classification also emphasized some commonalities that existed between various industries. This enabled managers to improve their marketing strategies. As long as goods were categorized in a way that confined each good to a specific industry, it restricted the scope for knowledge-exchange between the industries. Once the classification had risen above industry barriers, managers realized various commonalities between the goods belonging to different industries and the opportunity to learn from the experiences in other industries to solve their own problems.

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

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

2.9.1 What is the Type of Service?

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

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

A service may be an intangible activity that is directed at a person's mind or an intangible asset belonging to the customer. For instance, if a renowned management guru visits a management institute and delivers a lecture on

knowledge management for two hours, it enlightens the students and he is said to have influenced their minds. Similarly, if an insurance agent manages to persuade a customer to purchase a life insurance policy for himself and his family members, he/she has directed the service activity at an intangible asset of the customer (the life of the customer and his/her family members).

Example: Various Services Provided at Lakme

Lakme was the country's first cosmetic brand to introduce makeup to Indian women and was the expert on Indian beauty for over 50 years as of 2022. Lakme, being a cosmetic brand, also started offering services like Lakme Salons across the country. Customers of Lakme Salon can avail services like Hairstyling, Makeup, Skin Care and Hands & Feet care etc. These services involved tangibles like Lakme cosmetic products. The beauty professionals at Lakme Salon recommend the use of Lakme cosmetic products to customer's post their beauty service and most of the customers purchase them.

For details, check out: Rajendra Prasad Sharma, "The rise of services and fall of products", February 3, 2022, <https://brandequity.economictimes.indiatimes.com/news/marketing/the-rise-of-services-and-fall-of-products/89306274> (accessed on 12.05.22)

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

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

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

2.9.3 How is the Service Delivered?

The method of service delivery differs from one service to another. Some services require the customer to visit the service provider personally in order to receive the service. For example, a customer who wants to see a film on the big screen needs to go to a movie theater. On the other hand, some services require the service provider to visit the customer to deliver the service. For example, if an

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organization wants to employ the services of a house-keeping firm, employees of the house-keeping firm have to visit the customer's premises. In some services, the customer and the service provider need to come in direct contact with each other, whereas in some they don't need to. For example, in online retailing, the customer places his order and makes the payment over the internet and the retailer ships the product to the customer. There are also some services in which the service provider needs to be present at multiple locations to offer good quality service to customers. For example, banks have a number of branches and ATMs within a single city to expand their reach to the customer.

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

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

2.9.5 To what Extent is the Service Provider Needed to Customize Service and Exercise Judgment?

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

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

2.10 Myths about Services

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

Myth 1: Service is a necessary evil for manufacturing firms

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

Example: Service Myth @ Samsung

Samsung, the world's smartphone market leader, had over 3000 service points located all across India for customer support as of 2022. It offered repair service for its smartphone customers at affordable spare part costs. Due to this, the credibility of the brand increased in the customer minds and they continued to be loyal to the brand. This proved the myth "Service is a necessary evil for manufacturing firms" to be wrong.

For details, check out: "Samsung Service Centre", May 2022, <https://www.samsung.com/in/support/service-center> (accessed on 12.05.22)

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

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

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

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

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

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

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

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

In India, the service sector including banking, insurance, railways, power, telecom, etc., were all under the government for a long time and there was no role for the private players in these areas. As these areas formed a big chunk of the national economy, it was perceived that growth in the service economy was linked to the growth of public sector services. The scenario has however changed after the liberalization and globalization as the economy has opened the gates for private players in different areas like banking, telecom, insurance, power and energy etc. Private telecom players like Bharti and Reliance have made their mark in the telecom sector while public sector insurance companies like LIC and others are facing stiff competition from the likes of ICICI-Prudential, HDFC-Standard Life, Tata-AIG, ING-Vysya, etc.

Services like communications, transportation and hotels registered an overall growth rate of 8% while electricity, gas, water and utility services witnessed a growth rate of 7.2% and, real estate and financial services recorded a growth rate of 6.7% during 2007-18.

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

It is important to understand that service marketing is entirely different from marketing a product. The marketing techniques used in marketing a 'car' are totally different from the techniques deployed to market an 'airlines service.' To sell a car, the emphasize needs to be on its features, mileage, durability and the service network. It is apparent to us that all of these are tangible. On the contrary, an airlines provider has to focus on quality of in-flight service, the high-quality service offered by its staff, pre- and post-flight service etc. While communicating the quality of airline service, the company has to essentially draw attention to the airline's history of on-time departures and arrivals and so on. All these aspects are intangible and the consumer is likely to develop trust and confidence of these claims only after he or she experiences the service. Thus, the intangible and heterogeneous nature of services makes it complex for service marketers to market and promote service to customers. Traditionally the four elements that constituted the marketing tools (marketing mix) of a marketer to reach out to his target group were: Product, price, place and promotion. In services marketing, in addition to the 4Ps, three more Ps, i.e. people, process and physical evidence, assumed importance. The contemporary framework of 7Ps for services marketing evolved to address the marketing challenges posed by service like intangibility, inseparability, heterogeneity and perishability.

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

People have formed an opinion that growth in the service sector leads to a decline in employment in the manufacturing sector. In developed countries, the services sector dominates and the rate of growth of the service sector is also higher than the rate of growth of manufacturing sector. Due to low cost of labor, many manufacturing firms in developed countries have shifted shop to developing countries. All these factors appear to send a message that service sector growth causes decline in employment in the manufacturing sector in these countries.

However, it is natural that economic growth leads to certain structural changes. One of the changes is the emergence of service sector as a dominant sector of the economy.

Check Your Progress - 2

6. Leading academician of service marketing Christopher Lovelock classified services based on some factors. Which of the following factors was not suggested by Christopher Lovelock for classifying services?
- Nature of the product
 - Presence of inventories
 - Quality control problems
 - Customer involvement in the production process
 - Distribution channels

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7. In which of the following classification of services (based on the degree of involvement of the customer in the service delivery process), is the customer highly involved in the service process and needs to be physically present in order to experience the service?
 - a. People processing
 - b. Possession processing
 - c. Information processing
 - d. Mental stimulus processing
 - e. Services processing
8. In which of the following customer classification of services, the customer doesn't require to be present to experience the service but has to submit his/her property to the service provider for the latter to deliver the service?
 - a. People processing
 - b. Possession processing
 - c. Information processing
 - d. Mental stimulus processing
 - e. Process processing
9. Which of the following services types require the service provider to be formally trained to deliver the service?
 - a. Consumer-based-services
 - b. Industrial service
 - c. Professional service
 - d. Business-to-business service
 - e. Retail service
10. Which of the following classifications of services have enabled product managers to improve their organization's distribution systems and serve customers' needs better?
 - a. Consumer and industrial goods
 - b. Durable and non-durable goods
 - c. Convenience, shopping, and specialty goods
 - d. Personal and public goods
 - e. Professional service

2.11 Summary

- Changes in demographic, social, and economic factors, as well as institutional and policy changes are some of the major factors that influence the growth of the service sector.
- Most authors who define services emphasize the intangible nature of services in their definitions. However, in some services like restaurant and retailing, the service is bundled with a tangible component.

- The important characteristics of services are intangibility, heterogeneity, inseparability, and perishability. Intangibility refers to the lack of a tangible component associated with services. Heterogeneity refers to inability to maintain consistency in the way services are offered to customers. Inseparability refers to the need for the customer to interact with the service provider to obtain the service. Perishability refers to the inability of service providers to maintain service inventories to meet future demand.
- Christopher H. Lovelock attempted to classify services based on factors such as nature of the product, the customer as a part of the product, problems in quality control, involvement of the customer in the production process, absence of inventories, structure and nature of distribution channels, importance of prompt service, and difficulty in evaluating service quality.
- Services can also be classified based on the degree of customer involvement in the service delivery process, service tangibility, skills and expertise required, business orientation of the service provider, and type of end-user.
- Lovelock suggested that firms could market services better by dividing them into meaningful categories. He framed five questions to determine the category into which a particular service falls – What is the type of service? What is the nature of relationship shared by the customer with the service organization? How is the service delivered? What is the type of demand and supply for the service? To what extent is the service provider needed to customize service and exercise judgment?
- There have been some misconceptions about the service sector, which have been eliminated with the passage of time and as economies worldwide developed.

2.12 Glossary

Customer Orientation: A management philosophy in which the customer is central to everything the company does.

Customer Service: Actions companies can take to add value to basic goods and services.

Inseparability: Services cannot be separated from service providers. Also services are consumed, as they are delivered.

Intangibility: Services are intangible because they cannot be seen, felt, touched or smelled before purchase of the service.

Marketing Communications: The specific use of communication applied to the problem of sending messages to a target market.

Service: “Any activity of benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product”. (According to Philip Kotler).

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2.13 Self-Assessment Test

1. The importance of marketing of services has been increasing. Define services. Explain the factors influencing the growth of the service sector.
2. Services are different from products in many ways, the most important factor differentiating them being 'intangibility'. Discuss the characteristics of services. Explain the tangibility spectrum that differentiates a service from a product. What are the generic differences between goods and services?
3. It is essential to distinguish between different services in order to formulate appropriate strategies for marketing them. What are the various ways in which services are classified? How can grouping of services enhance the ability of managers to solve complex problems they face in marketing services?
4. "There have been some misconceptions held by people about the service sector." Substantiate this statement.

2.14 Suggested Readings/Reference Material

1. Jochen Wirtz, Christopher H. Lovelock (2021). 'Services Marketing: People, Technology, Strategy' (Ninth Edition), World Scientific Publishing Co Inc. (USA).
2. Valarie A. Zeithaml and Mary Jo Bitner (2018). Services Marketing: Integrating Customer focus across the Firm. Seventh edition. New Delhi: McGraw-Hill Education.
3. Dr Ravikumar K (2020). 'Marketing and Services Management', Notion Press.
4. Dr. Subramaniam Seshan Iyer (2021). 'Marketing of Healthcare Services: A reference book', Notion Press.
5. Dr Manita Matharu, Dr Manish Joshi and Dr P Jagadeesan (January 2022), 'Service Marketing', Red'shine Publication Pvt. Ltd.

2.15 Answers to Check Your Progress Questions

1. (e) Economic and policy change

The opening up of the aviation sector is an economic and policy change. The other options like demographic, social, cultural and technological factors are not relevant here.

2. (d) Intangibility

Adrian Payne has defined service as an activity that has an element of intangibility associated with it. It involves the service provider's interaction either with the customers or with the property belonging to the customer. The major characteristics of services are intangibility, inseparability, heterogeneity, and perishability.

3. (b) The service activity involves the transfer or ownership of the output

All the statements are true regarding services, except statement (b). The service activity does not involve the transfer or ownership of the output.

4. (a) A laptop

Philip Kotler classified products/services into four categories depending on the degree of their tangibility --- pure tangible goods, tangible goods with accompanying service, a major service accompanying minor goods and services, and a pure service. A laptop can be categorized as tangible goods with accompanying service. Vegetables come under pure tangible goods, and a hair salon and a baby crèche can be considered as major services accompanying minor goods and services.

5. (c) Heterogeneity

A machine can produce units identical in size, shape, and quality. But a human being cannot work as uniformly and consistently throughout the day. As service is provided by a human being, it cannot be uniform. Services are, therefore, heterogeneous. Thus, the given example shows the heterogeneous feature of services.

6. (b) Presence of inventories

Lovelock attempted to classify services based on factors such as the nature of the product, customer involvement in the production process, people as part of the product, quality control problems, difficulty in evaluation, absence of inventories, importance of the time factor, and nature of distribution channels. Services are perishable. They cannot be stored for future use like most products. Therefore, there is no question of inventories in services.

7. (a) People processing

Based on the degree of involvement of the customer in the service delivery process, services are categorized into people processing, possession processing, mental stimulus processing, and information processing. Under people processing, the customer is highly involved in the service process and needs to be physically present in order to experience the service. Here, the service is directed at the customer.

8. (b) Possession processing

In possession processing, the customer doesn't require to be present to experience the service but has to submit his/her property to the service provider for the latter to deliver the service. Under people processing, the customer is highly involved in the service process and needs to be physically present in order to experience the service. In mental stimulus

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processing, the attention of the customer must be directed on the service in order for him/her to experience the service. The information processing type of service requires service personnel to collect information, analyze and interpret it, and offer appropriate advice to the client.

9. (c) Professional

Services can be categorized as professional services and non-professional services based on the skills and expertise required by the service provider to offer the service. Professional services require the service provider to be formally trained to deliver the service. Services can be classified into consumer services, industrial services, and business-to-business services depending on the type of customer who consumes them.

10. (c) Convenience, shopping, and specialty goods

At the beginning, goods were classified into convenience, shopping, and specialty goods. This classification enabled product managers to improve their organization's distribution systems and serve customers' needs better. Later, another classification suggested that goods could also be divided into durable and non-durable goods. The classification enabled manufacturers to improve their distribution as well as communication strategy. Later, classification of goods into consumer goods and industrial goods emphasized the differences in the behavior of the customers of these goods, and the way they evaluated the products and purchased them. The classification also emphasized some commonalities that existed between various industries. This enabled manager to improve their marketing strategies.

Unit 3

The Nature of Services Marketing

Structure

- 3.1 Introduction
- 3.2 Objectives
- 3.3 Evolution of Service Firms
- 3.4 A Different Approach for Marketing Services
- 3.5 The Services Marketing Triangle
- 3.6 The Services Marketing Mix
- 3.7 Key Marketing Issues Before a Service Organization
- 3.8 New Avenues in Services Marketing
- 3.9 Summary
- 3.10 Glossary
- 3.11 Self-Assessment Test
- 3.12 Suggested Readings/Reference Materials
- 3.13 Answers to Check Your Progress Questions

“You’ll never have a product or price advantage again. They can be too easily duplicated. But a strong customer service culture cannot be copied.”

– Jerry Fritz

3.1 Introduction

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

In the previous unit, we learned about services and the marketing of services, and how the latter is different from marketing of products. In this unit, we shall discuss the nature of services marketing. How does one market something that cannot be tasted, smelled, heard, seen, or touched? All that a marketer is offering while marketing a service is an experience and it is the satisfaction that is resulted from it.

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This unit will discuss the evolution of service firms and how services need to be marketed in a different context. It will then move on to discuss the services marketing triangle and the services marketing mix. Finally, the key marketing issues before a service organization and the new avenues available in services marketing will be discussed.

3.2 Objectives

After studying this unit, you should be able to:

- Determine the evolution of service firms
- Elaborate on the different approaches adopted to marketing of services
- Explain the services marketing triangle
- Discuss the services marketing mix
- Identify the key marketing issues before a service organization
- Recognize the new avenues in services marketing

3.3 Evolution of Service Firms

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

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

The fierce competition in all sectors of the service industry (insurance, healthcare, banking and financial services, food and hospitality, education, entertainment or transport services) has made it necessary for service providers and differentiate themselves for survival and growth. Service firms have thus realized the importance of incorporating the goal of total customer satisfaction into their corporate philosophy.

While service firms in the earlier days gave very little importance to segmentation, customer satisfaction, new product development and other such service aspects, today's firms stress on these aspects to enhance customer

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

Example: Pizza Hut – A Service Firm

Consider Pizza Hut, one of the popular fast food chains in the world. It was not doing well during the period 2014 to 2020. It incorporated customer satisfaction in its philosophy and in 2021 Pizza Hut chains in the USA scored the highest and on par with limited service restaurants score of 78 according to ACSI (American Customer Satisfaction Index). The study also revealed that the customers of Pizza Hut were very happy with the offerings like very delicious food, usage of fresh ingredients which were handmade and of generous size. They were quite unhappy with the price, as they felt it to be too expensive. It was not as widely spread as its competitors.

For details, check out “American Customer Satisfaction Index scores of Pizza Hut restaurants in the United States from 2000 to 2021”, July 2021, <https://www.statista.com/statistics/216718/pizza-hut--customer-satisfaction-in-the-us/> (accessed on 16/5/22)

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

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

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

3.4 A Different Approach for Marketing Services

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

- Narrow definition of marketing by service providers
- Lack of appreciation for marketing skills in service organizations
- Difference in organizational structure of service firms
- Problems in determining costs for pricing of services
- Constraints and opportunities for not-for-profit service organizations

3.4.1 Narrow Definitions of Marketing

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

Segmentation of services was very rare. The only segmentation that took place in services marketing was based on the product being serviced. Similarly, service firms did not lay any emphasis on customer relations and marketing efforts by employees. The employees were rarely trained to carry out these functions. This was quite evident in the lack of empathy displayed by employees working in the sector, especially in banks, telecommunications, postal services, etc. The fact that most of these services were in the hands of the government, and monopoly ruled high, also contributed to this trend. However, service firms are now gradually realizing that employees, especially the front-line staff, can play a vital role in marketing the services of a firm. Personnel in almost all banks are now required to involve themselves in marketing activities as part of their regular job duties.

3.4.2 Lack of Appreciation for Marketing Skills

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

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

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

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

3.4.3 Different Organizational Structures

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

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3.4.4 Problems in Determining Costs for Pricing

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

The price plank has been successfully used by airline companies to market their services to customers.

Example: Problem of Cost Determination at Airlines Industry

Consider Airlines industry. During pandemic from 2020 onwards, airlines airfares sank to unthinkable lows. But after 20 months in 2022, travellers have seen some skyrocketing fares for domestic flights and many international trips. So while higher fuel costs and growing travel demand could push average prices higher, there are few players like Southwest Airlines who will provide flights at cheap rates. Hence it is very difficult in determining costs for pricing in service industry like airlines due to the competition from low-cost carriers.

For details, check out Gunnar Olson, "Why Are Flights So Expensive Right Now?", May 23, 2022, <https://thriftytraveler.com/guides/travel/why-are-flights-so-expensive-right-now/> (accessed on 16/5/22)

3.4.5 Constraints and Opportunities for Not-for-Profit Organizations

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

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

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

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

Other Challenges

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

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

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

3.5 The Services Marketing Triangle

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

Example: Service Triangle @ Vijay Sales

Vijay Sales operates 117 aesthetically-designed and conveniently located retail showrooms across major cities of India, as of March 2022. It sells multi branded air conditioners, home appliances, cameras etc. in its retail showrooms.

Contd....

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They train the customer sales executives very well to handle the queries, behave courteously and persuade the buyers who are willing to spend some time listening to them. Hence Vijay Sales could retain its customers through interactive marketing that takes place between the front-line employees and the customers.

For details, check out <https://www.vijaysales.com/>, May 2022, (accessed on 16/5/22)

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

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

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

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

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

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

Activity 3.1

BG Group, a conglomerate, was delaying its plans to enter the airlines industry through the launch of the BonVoy Airlines. This has been attributed to the delay by the company's top management to develop a services marketing strategy for this venture. Singh, marketing head of the venture (who was appointed from a top rival airline company), is said to be concerned about developing an effective service marketing triangle for the Airlines. What aspects should the BG Group consider in the services marketing triangle? Briefly describe the different components of the triangle.

Answer:

3.6 The Services Marketing Mix

As has been discussed earlier, services differ from goods in that they have certain unique characteristics such as intangibility, perishability, inseparability and heterogeneity. These characteristics make it necessary to differentiate the marketing mix for services from the one for goods. The marketing mix for services is an extension of the marketing mix for products and goods, as a few more elements are added. The marketing mix consists of the various tools available to a company to pursue its marketing objectives. The traditional 4marketing mix, a dominant framework for marketing decisions of products, has 4Ps, which are explained briefly:

Product: The product or service is a bundle of benefits offered to meet the demand of target customers. The product is designed to suit the needs, tastes and preferences of the target customers. In addition, other aspects like stage of product life cycle are also considered while taking key product decisions.

Price: The key factors considered while making pricing decisions are cost of the product, demand and supply of the product and the value perceived by the customers.

Place: Distribution of placing is a key element of the marketing mix because it determines how customers would access the product. The key placement goals are providing easy access to product through suitable channels of distribution and complement and support the product strategy.

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Promotion: The most important goal of promotion function (which includes advertising, sales promotion, public relations, publicity) is to communicate the primary need of the product to the customer. Further, it ties the other marketing mix elements and places them in the right perspective to enhance perceived value of the product.

In addition to the 4Ps (Product, Price, Place and Promotion), that comprise the traditional marketing mix for products and goods, the marketing mix for services consists of 3 more elements, namely, people, physical evidence and process, to cater to the unique needs of services marketing. Thus, the marketing mix for services is considered to consist of 7Ps – Product (in this case, the service), Price, Place, Promotion, People, Physical evidence and Process.

In this unit, we shall examine the three additional Ps of services marketing – People, Physical evidence, and Process.

3.6.1 People

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

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

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

3.6.2 Physical Evidence

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

Example: Physical Evidence @ Rolls-Royce

Consider luxury car maker Rolls-Royce, which made a debut film, showcasing its highly contemporary new visual identity/physical evidence at their new flagship luxury Maison in London and boutique in Shanghai Puxi. They planned this before the global rollout across the brand's network of 131 showrooms in 40 countries worldwide during 2021. The film showcased a journey through Motor Cars London, Berkeley Street, and W1 situated in the heart of Mayfair. It showed how its every single Rolls-Royce Motor Cars' showroom offered its clients a relaxed, comfortable, discreet and highly contemporary environment reminiscent of a galleria-style shopping experience, under their new identity.

For details, check out: "The New World of Luxury: Rolls-Royce Presents Film of New Showroom Visual Identity", May 29, 2021, <https://www.entmag.org/luxe-motoring/2021/5/26/the-new-world-of-luxury-rolls-royce-presents-film-of-new-showroom-visual-identity> (accessed on 16/5/22)

3.6.3 Process

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

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

Check Your Progress - 1

1. INOX Leisure Ltd. operates 40 multiplexes and 151 screens across 26 states in India. INOX takes extra care to provide a hygienic and pleasing ambience to movie-goers in their theatres. The service setting or physical backdrop enables perception of service quality. Which 'P' of marketing mix enables the target group as in this case to see and experience the service quality?
 - a. People
 - b. Physical Evidence
 - c. Process
 - d. Product
 - e. Place
2. Which of the following aspect of services makes it difficult to determine the pricing of a service using the cost-based strategy?
 - a. Perishable, inseparable
 - b. Heterogeneous, perishable
 - c. Inseparable, intangible
 - d. Heterogeneous, intangible
 - e. Perishable, separable
3. Who among the following are not participants in the services marketing triangle?
 - a. Company
 - b. Front-line employees
 - c. Customers
 - d. Market research analysts
 - e. Marketing personnel
4. Which of the following defines internal marketing?
 - a. Interactions between the company and the front-line employees
 - b. Interactions between the front-line employees and the customers
 - c. Interactions between the company and its customers
 - d. Interactions between customer and customer
 - e. Interactions between customer and company

5. Identify the statement that does not hold true regarding interactive marketing.
- It is essentially a value creation process
 - It refers to the interactions that take place between the company and its customers
 - It refers to the mutual exchanges that take place between front-line employees and the customers before, after, and at the point of sale
 - The exchanges that take place in interactive marketing may take the form of information about the product or service or may even be a physical or monetary exchange
 - Interactive marketing enhances the chances of sale
-

3.7 Key Marketing Issues before a Service Organization

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

3.7.1 Managing Differentiation

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

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

- Service premises
- Packaging
- Service personnel
- Tools and equipment used
- Customers
- Convenience
- Name of the service establishment

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Service premises

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

Service providers try to project the desired visual image of the firm using the décor of the establishment. Décor includes the furnishing, upholstery, carpeting, lighting and the signs used in the service establishment. The use of the right type, style and color of furnishing, upholstery and carpeting helps service providers differentiate themselves from competitors. This gains greater importance in the hospitality industry, where customers spend some time in the premises of the service provider.

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

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

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

The floor plan or layout of the firm and the standard of house-keeping are also factors that determine the service quality. Service firms can use floor plan or layout to express their concern for the convenience, health and safety of the customer. Providing facilities such as escalators, elevators and ramps for the physically handicapped helps service providers differentiate themselves from

competitors who fail to provide these conveniences to customers. Further, the use of open floor plans and enclosed or departmentalized floor plans help service providers to create the desired image for the firm. While open floor plans promote a feeling of openness and informality, enclosed floor plans give rise to a feeling of exclusiveness, privacy and formality. The standard of house-keeping observed in the firm is conveyed by the cleanliness, orderliness and hygiene maintained on the premises.

Example: Marketing through Service Premises @ Sneaker brand APL's Store

Sneaker brand APL's first store in LA was defined by its long narrow space that was both dramatic and serene. As the store was located in the 'City of Angels', the founders wanted to conjure up an image of 'heaven'. The high ceilings, narrow width and runway-like depth were immediately noticeable in this extraordinary store. Whilst the space itself was incredibly dramatic, the overall aesthetic was not in competition with the sneakers on display and they still managed to be the star of the show. It used its service premises to attract its target customers.

For details, check out: Jack Stratten, "50 of the World's Best Retail Displays", February 21, 2020, <https://www.insider-trends.com/50-of-the-worlds-best-retail-displays/> (accessed on 16/5/22)

Packaging

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

Service personnel

The appearance and grooming of the employees of a service firm and their behavior help the firm to differentiate itself from its competitors. Service firms may improve the appearance of their employees using a well-designed uniform or a specific dress code. They may also improve the appearance and grooming of their employees by establishing standards related to their age, height, weight, hair length, personal hygiene and make-up. Such standards are strictly observed in the airline industry. For example, in Air India, airhostesses who are overweight are not allowed to fly. In addition, in order to present young and beautiful women as

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the face of Air India, the company does not allow airhostesses above 50 years of age to fly and instead assigns them ground duties. However, such standards for the employees in service firms may sometimes be perceived as an invasion of privacy.

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

Tools and equipment used

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

Customers

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

Convenience

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

Name of the service establishment

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

3.7.2 Managing Productivity

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

3.7.3 Managing Service Quality

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

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

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

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Activity 3.2

U&I Bank is the latest entrant into the highly competitive banking sector in India. Being a financial services provider, it will be very difficult for the bank to differentiate its services from those of the competitors in an industry where customer service is the only tangible means of differentiation. What are the various options open to U&I Bank to differentiate its services from those of the long list of already existing banks?

Answer:

3.8 New Avenues in Services Marketing

Service providers are seeking new ways to attract new customers by promising them a delightful service experience. In trying to do so, service firms are being as innovative as they can. For example, Malaysian Airlines, in its search for new avenues to enhance the service experience of its customers, came up with the idea of the Malaysian Airlines Travel Fair, during which the airline offers its new products and services to customers. The fair provides the customers an opportunity to plan their air travel and vacations at the most competitive price.

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

Example: Mercedes Benz – New Avenues for Marketing

Mercedes Benz was the largest selling luxury car maker in India for the seventh consecutive year as on 2022. It conducted many fashion events across the globe. Luxury car companies like Mercedes Benz sponsored events like Fashion week across the world as fashion and automobiles are so air-tight. As it so happens, both industries are apt to follow similar principles in order to achieve similar success. Both the car and fashion industries place a heavy emphasis on optics and aesthetics, qualities that are the foundations for opulence and luxury. Fashion show ‘MBFW 2022’ was conducted by Mercedes Benz at Berlin to attract customers and generate new leads from their target customers.

For details, check out: “About MBFW”, May 2022, <https://mbfw.berlin/about/> (accessed on 16/5/22)

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

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

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

Check Your Progress - 2

6. Team-work, trained and highly skilled and technical manpower, high sense of humour and concern for customers are the key characteristics of the employees of Southwest Airlines. Which of the following elements of the services marketing mix enhances the quality of service delivered by South West Airlines?
 - a. Process
 - b. People
 - c. Product
 - d. Physical evidence
 - e. Promotion
7. Which of the following is not a key marketing issue before a service provider?
 - a. Managing differentiation
 - b. Managing service quality
 - c. Managing service quality perceptions
 - d. Managing performance
 - e. Managing diversification

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8. Service premises, packaging, convenience, and name of the service establishment are the tangible elements used to achieve which of the following goals in service businesses?
 - a. Manage productivity
 - b. Manage differentiation
 - c. Manage service quality
 - d. Manage diversification
 - e. Manage service quantity
 9. Which of the following deals with the set-up and environment, in which the service is provided?
 - a. Service premises
 - b. Name of the service establishment
 - c. Convenience
 - d. Process
 - e. People
 10. Credit check, 'Know Your Customer' (KYC) norms, loan processing etc. are procedures followed in banking industry. Under which of the following elements of service marketing mix, would you categorize these procedures followed (in the banking industry)?
 - a. People processing
 - b. Product
 - c. Promotion
 - d. Service process
 - e. Service setting
-

3.9 Summary

- A service firm, unlike a manufacturing firm, does not manufacture but rather performs something for the customer. It delivers an experience that is intangible, heterogeneous, inseparable, and imperishable in nature. Thus, marketing of services is different from the marketing of products.
- Service firms have evolved over the years along with the evolution that took place in the business environment in which they were operating. The evolution of service firms has been largely in response to the fierce competition in the service industry, and the realization of the need to incorporate the goal of total customer satisfaction into corporate philosophies. This has become essential for firms to survive and prosper.

- The unique characteristics of intangibility, heterogeneity, inseparability, and perishability, as well as the distinctive features of service firms such as lack of appreciation for marketing skills, narrow definition of the marketing function, a different organization structure, difficulty in determining costs for pricing the service, and constraints and opportunities in the not-for-profit sector have made it necessary for service marketers to adopt a different approach for marketing services.
- The services marketing triangle depicts the relationship between the three components of the service delivery process, namely, the customers, the front-line employees, and the company. The interactions that take place among these three components comprise external marketing, internal marketing, and relationship or interactive marketing, respectively.
- The services marketing mix is the mix of marketing elements that helps service firms to successfully operate the business. In addition to the 4Ps of marketing goods (product, price, place, and promotion), service firms are characterized by three additional Ps, namely, people, physical evidence, and process.
- The key marketing issues that face any service firm relate to managing differentiation, managing productivity, and managing quality.
- The rapid changes in technology and the business environment have served to provide new avenues for service marketers to market and differentiate themselves.

3.10 Glossary

External Marketing: The interactions that take place between the company and its customers constitute external marketing through which the company promises to deliver quality service to customers.

Interactive Marketing: The mutual exchanges that take place between front-line employees and the customers before, after, and at the point of sale. This is the most important of the three interactions that eventually determines customer retention by service firms.

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

People in Services Marketing Mix: This refers to all those persons who are involved in the production and consumption of a service. They include the front-line employees of a service organization and the customers purchasing the service.

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Physical Evidence in Services Marketing Mix: It includes tangible accompaniments to the service like the uniforms worn by the staff of the service organization, the ambience in the lobby of a hotel, reports and brochures, business cards, and displayed certificates of service quality or appreciation.

Process in Services Marketing Mix: Process involves transforming a certain input into the desired output. It is the process of delivery that differentiates one service firm from another. Process management in services is essential to ensure consistent quality of service delivery.

Reverse Pyramid Organizational Structure: In this type of organizational structure, the customer-contact personnel are located at the top and the pyramid narrows down to the top management level.

Service Premises: The appearance of the service premises deals with the set-up and environment in which the service is provided. This aspect is more important in those services where the customer has to approach the service provider to avail of the service.

Services Marketing Mix: This comprises the 7Ps, which are, price, product, place, promotion, process, people, and physical evidence.

Services Marketing Triangle: The company, front-line employees, and the customers make up the three corners of the triangle. The interactions that take place between these three constitute external marketing, internal marketing, and interactive marketing that play a vital role in service marketing.

3.11 Self-Assessment Test

1. Service firms have evolved over the years along with the evolution that took place in the business environment in which they were operating. Explain the evolution of the service firms.
2. The unique characteristics as well as the distinctive features of service firms have made it necessary for service marketers to adopt a different approach for marketing services. How different is the approach for marketing services from that used for marketing of products? Explain.
3. The services marketing triangle consists of the three components of the service delivery process, which in turn, interact with one another. Explain these components in detail.
4. “Marketing analysts point out that apart from the 4Ps of the marketing mix, three additional elements, viz., people, physical evidence, and process help address the needs of services marketing completely.” Explain this statement.
5. Service firms face certain key marketing issues. What are these issues? Discuss in detail. Also, describe the new avenues available to service marketers to market and differentiate themselves at the marketplace.

3.12 Suggested Readings/Reference Materials

1. Jochen Wirtz, Christopher H. Lovelock (2021). 'Services Marketing: People, Technology, Strategy' (Ninth Edition), World Scientific Publishing Co Inc. (USA).
2. Valarie A. Zeithaml and Mary Jo Bitner (2018). Services Marketing: Integrating Customer focus across the Firm. Seventh edition. New Delhi: McGraw-Hill Education.
3. Dr Ravikumar K (2020). 'Marketing and Services Management', Notion Press.
4. Dr. Subramaniam Seshan Iyer (2021). 'Marketing of Healthcare Services: A reference book', Notion Press.
5. Dr Manita Matharu, Dr Manish Joshi and Dr P Jagadeesan (January 2022). 'Service Marketing', Red'shine Publication Pvt. Ltd.

3.13 Answers to Check Your Progress Questions

1. (b) Physical Evidence

Physical evidence is the service setting or the environment in which the customer and the firm interact. The customer perceives service quality based on the tangible evidence that facilitates service delivery.

2. (d) Heterogeneous, intangible

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

3. (d) Market research analysts

The services marketing triangle consists of the three components of the service delivery process, namely, the company, the front-line employees, and the customers. The interactions that take place between the company and its customers constitute external marketing; the interactions between the company and the front-line employees constitute internal marketing; and the interaction that takes place between the front-line employees and the customers is known as interactive marketing.

4. (a) Interactions between company and front-line employees

The services marketing triangle consists of the three components of the service delivery process, namely, the company, the front-line employees, and the customers. The interactions that take place between

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the company and its customers constitute external marketing. The interactions between the company and the front-line employees constitute internal marketing. The interaction that takes place between the front-line employees and the customers is known as interactive marketing.

5. (b) It refers to the interactions that take place between the company and its customers

All the statements are true regarding interactive marketing, except statement (b). External marketing refers to the interactions that take place between the company and its customers.

6. (b) People

All human factors that play a key role in enhancing the quality of service are categorized under 'People' in the service marketing mix. The behavior of employees, front line personnel and other persons who interact with customers provides cues to customers regarding the nature and the quality of service.

7. (e) Managing diversification

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

8. (b) Manage differentiation

The intangible nature of services makes it difficult for service providers to differentiate themselves from their competitors on aspects other than price. Therefore, tangible elements may be used to differentiate service businesses such as service premises, packaging, service personnel, tools and equipment used, customers, convenience, and name of the service establishment.

9. (a) Service premises

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

10. (d) Service Process

The procedures, the systematic flow of operations and activities through which a service is delivered is known as 'Service Process'. This is a key element of the service marketing mix because the service process can enhance or diminish the smooth delivery of service and the service experience. The efficiency of service delivered is directly determined by the service process.

Unit 4

Consumer Behavior

Structure

- 4.1 Introduction
- 4.2 Objectives
- 4.3 Differentiating Consumer Evaluation Process for Goods and Services
- 4.4 Consumer Decision-making Process
- 4.5 External Factors Influencing Consumer Behavior
- 4.6 Implications for Service Providers
- 4.7 Summary
- 4.8 Glossary
- 4.9 Self-Assessment Exercises
- 4.10 Suggested Readings/Reference Materials
- 4.11 Answers to Check Your Progress Questions

“When you focus on the consumer, the consumer responds.”

-- Alexander Wang

4.1 Introduction

As quoted rightly, the companies must focus on consumers then the consumer response towards the product will be good as he believes in the product. Consumer behavior is defined as the actions or beliefs that guide a person to purchase and consume a product or service. The study of consumer behaviour requires inputs from many other disciplines such as economics, sociology and psychology. Consumer behavior concerns with the study of the factors that influences consumer purchase behaviour and also the process that a consumer navigates through, while evaluating and assessing the product/service to arrive at informed and intelligent purchase decisions.

The main challenge for a service marketer is to enhance the tangible characteristics of services. In addition, the service marketer also needs to provide customized and quality services. Technological advances in the new millennium come to the aid of service providers to offer customized services to their customers.

In the previous unit, we discussed the nature of services marketing. In this unit, we shall discuss consumer behavior.

This unit will help students understand the primary differences between the process through which a consumer evaluates goods and the one he/she uses for

evaluating services. Then each and every step involved in the consumer decision-making process and the environmental factors that influence consumer behaviours are analysed to help students appreciate the difficulties in service marketing.

4.2 Objectives

After studying this unit, you should be able to:

- Recognize the differences in consumer evaluation process of goods and services.
- Explain the consumer decision-making process.
- Identify external factors influencing consumer behavior.
- Evaluate the implications for service providers.

4.3 Differentiating between the Consumer Evaluation Process for Goods and Services

Goods and services have varying levels of Search, Experience, and Credence (SEC) qualities. While the search qualities of good or a service can be assessed before the purchase, the experience qualities can be evaluated only subsequent to the purchase and consumption of products/services. There are certain qualities that cannot be assessed completely even after the purchase and consumption of the good or service. These characteristics or qualities are called credence qualities. These three qualities put together account for the major differences observed in the evaluation process for goods and services. Parasuraman, Zeithaml and Berry, in their article “A Conceptual Model of Service Quality and Its Implications for Future Research,” listed 10 service quality dimensions and had further categorized them under the search, experience and credence qualities.

4.3.1 Search Qualities

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

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

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

4.3.2 Experience Qualities

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

4.3.3 Credence Qualities

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

Example: Credence Quality Issue - Amazon and Big Bazaar

Amazon in 2019 picked up a 49 per cent stake in Future Coupons Pvt Ltd (FCPL), a promoter firm of FRL. It was announced in August 2020 by Future Group that it signed a 24,713-crore deal to sell 19 companies operating in retail, wholesale, logistics and warehousing segments to Reliance Retail Ventures Ltd (RRVL), which was a holding company of all the retail companies under the RIL Group. Amazon filed a case against Big Bazaar and the tussle was still going on as of May 2022. The battle was mostly favoring Amazon and hence the legal advice taken by Future group for its Big Bazaar sale to Reliance can be ascertained only after court judgment.

For details, check out “Reliance’s ‘Capture’ of Big Bazaar stores raises questions”, March 20th 2022, <https://www.newindianexpress.com/opinions/2022/mar/20/reliances-capture-of-big-bazaar-stores-raises-questions--2431996.html> (accessed on 17/5/22).

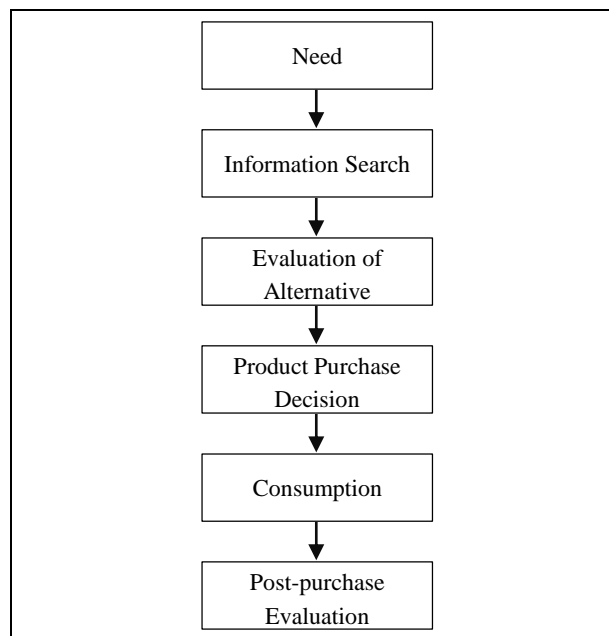
Let us take the example of legal advice or medical treatment. The impact of the medical treatment can be ascertained only after recovery from illness. Likewise in the case of legal advice also, the client may not have the expertise to judge the suitability or correctness of the advice.

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

4.4 Consumer Decision-making Process

The buying process of a consumer is driven by his/her specific needs and his/her decision-making process involves the following steps. These steps, as listed below and illustrated in Figure 4.1, remain the same for both goods and services.

Figure 4.1: Consumer Buying Process



Source: Jocken Writz and Christopher Lovelock, "Services Marketing: People, Technology, Strategy", World Scientific Publishing Co Inc., 2021

4.4.1 Need Perception

A consumer may experience the need to buy a product or service when there is a perceived difference between the actual or present state and desired state. For example, a consumer who experiences hunger feels the need to buy food and be relieved of hunger. Further, a particular need may arise due to consumer's perception or due to marketer activities. For example, an individual who never

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thought of buying a car may perceive the need to buy one, when he/she sees his/her colleague or neighbor buy a car. Similarly, a marketer's activities through various promotional channels can erase a customer's perception that buying a car is an expensive affair, which might eventually make him feel that he/she too needs a car. The best example is the Maruti advertisement, which says that the monthly EMI on a car loan from the company is "only ₹ 2599", which gives the customer, a feeling that it is quite affordable.

Example: Need Perception – by DMart

As on April 2021, discount retail chain DMart offered merchandise at more than 214 stores across India for great discounts. With such offers, it influenced the need perception of customers who visit for window shopping. It then persuaded the customers by offering the merchandise at great discount offers. The window shoppers also purchased due to the attractive discount offers. DMart had a benefit to-deals proportion of 3.7% as on 2021. It operated in high rush hour gridlock territories with three formats - Hypermarkets, Express Highways & Super Centers.

For details, check out "D'Mart: Most Successful Indian Chain of Hypermarkets [DMart Case Study]", August 4th 2021, <https://startuptalky.com/dmart-case-study/> (accessed on 17/5/22).

4.4.2 Search for Information and Perceived Risk

Once a need is experienced or felt, a customer makes a decision to purchase a product/service to fulfill his/her 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/her need.

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 comprise information retrieved from the customer's memory, which is based on the customer's previous experiences of buying the product/service. External sources include personal and non-personal sources. In the case of services, customers opt for external sources of information only if an internal source of information is not available or is not sufficient for him to take a decision. The external (personal and non-personal) sources of information include:

Personal sources: Friends, family, neighbors, etc.

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

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

Experiential: Product-trial, observing, handling, examining, etc.

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

Perceived risk

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

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

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

Physical risk: Physical risk involves the risk to the physical safety of the customer by using the product/service. For example, when a customer purchases a pressure cooker, the decision involves a physical risk that its use may result in an accident. As an example of physical risk involved in consumption of services, employing the services of an eye surgeon for correction of vision can be a good example, as the patient may be at the risk of losing his sight after undergoing the operation.

Psychological risk: Psychological risk is the risk of causing harm to one's self image by making a bad product/service choice. For example, the experience of a

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young couple hiring the services of a baby-sitter for their baby involves psychological risk. Further, they would be worried about the well-being of their child and the effects of hiring a baby-sitter on the young mind. Similarly, in case of products like alcohol or cigarette, first-time users will experience psychological risk of getting addicted to them. However, there is also an element of physical risk also involved in this case.

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

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

Activity 4.1

Most service providers give toll-free numbers at the end of any advertisement in the print or electronic media. What purpose do these toll-free numbers serve in the consumer's buying process?

Answer:

Activity 4.2

Describe the concept of perceived risk. What are various types of perceived risks? What perceived risks might a consumer face when purchasing tourism products?

Answer:

4.4.3 Evaluation of Alternatives

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

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

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

The second factor in customer's evaluation of a service involves his moods, emotions, and attitude. Moods are temporary states of feeling in a customer. They occur at certain times and in response to a particular event or situation. Suppose a customer enters a coffee shop in a bad mood, after being through a bad traffic jam. It might happen that the customer does not enjoy the coffee as much as he would have if he were in a good mood. Emotions are intense feelings, which involve psychological responses like fear, anger, happiness, etc. Suppose the same customer resents consumption of non-vegetarian food. He might not enjoy his meal in a restaurant, which also serves non-vegetarian food. Attitudes are the sum total of an individual's feelings about a company, another person, a brand, etc. Imagine the same customer to be against the concept of fast food, as he believes that it has led to unhealthy eating habits among the children and youth.

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He might never want to visit a fast-food joint because of his attitude towards fast food.

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

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

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

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

purchase decisions of customers. ICICI Bank has used the 'like-agree' heuristic whereby, people arrive at the same decision as the one taken by someone they admire.

Activity 4.3

After finishing their graduation, Anirudh and his friends planned for a get-together at Café Coffee Day. On the day of the get-together, due to heavy rains, there was huge traffic jam on the way to the coffee shop. Anirudh got stuck in the traffic and reached an hour late to the venue. He was in a very frustrated mood, and during the course he happened to enter a heated argument with the barista. In what way do emotions and moods influence consumer behavior? What steps can a coffee bar chain like Café Coffee Day take to build up a positive attitude among its customers?

Answer:

4.4.4 Purchase Behavior

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

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

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

4.4.5 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/her expectations. A satisfied customer becomes brand loyal, brings in repeat business and gives a positive feedback to others about the product or service. It costs a company much more to attract new customers than to retain them. Therefore, companies today focus also on retaining old customers apart from attracting new customers.

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

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

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

Check Your Progress - 1

1. What qualities cannot be assessed completely even after the purchase and consumption of the goods or service?
 - a. Search
 - b. Credence
 - c. Experience
 - d. Cadence
 - e. Both search and experience
2. Which quality can be evaluated only after purchase and consumption?
 - a. Search
 - b. Experience
 - c. Credence
 - d. Both experience and credence
 - e. Cadence
3. Which of the following sources of information include information retrieved by the customer from his/her memory, pertaining to his/her previous experiences of buying the product/service?
 - a. Internal
 - b. External
 - c. Experiential
 - d. Personal
 - e. Intrapersonal
4. Which of the following external sources of collecting information fall under experiential sources?
 - a. Neighbors
 - b. Product trials
 - c. Magazines of interest to consumers
 - d. Consumer organizations
 - e. Opinion Leaders

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5. Identify the statements that do not hold true regarding perceived risk.
 - a. A perceived risk is involved in all customer purchase decisions
 - b. It is the uncertainty faced by consumers when they cannot assess the post-purchase consequences before purchasing the product/service
 - c. The intangibility characteristic of services makes the customer's perception of risk lower in the case of services than in the case of goods
 - d. Financial risk, functional risk, physical risk, etc., are the various types of perceived risks
 - e. Perceived risk is higher when the price of the product and the involvement with the purchase of the product is high
-

4.5 External Factors Influencing Consumer Behavior

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

- i. **Culture:** Culture consists of the values, norms, roles and customs shared by members of a society. It differs from place to place. The culture of a place plays a vital role in determining the values and attitudes of the people of that place, and in turn their purchase behavior. Therefore, marketers should have an understanding of the culture of the different places in which they wish to market services. For example, a firm providing 'dating services' might do well in American culture, but might not win too many hearts in the Indian market.
- ii. **Subcultures:** Subcultures are smaller sections in a society with similar norms, values, and behavior patterns, which make them distinct from the main culture. Age, lifestyle, geography, ethnicity, race, and religion may form the basis for subcultures. In India, there are special restaurants in the South offering North Indian food to cater to the tastes of the North Indian people living in the South. Likewise, in the North, there are special restaurants that cater to the tastes of people from South India.
- iii. **Social class:** People having similar lifestyles, interests, values, behaviors, and norms are grouped under a social class. Their similarity in beliefs forms the basis for market segmentation, and affects their shopping patterns or the kind of products or services they purchase. Thus, marketers offer products and services aimed at a social class of people. For example, hotels such as the Sheraton, the Hyatt and some Taj group hotels cater to the tastes of the elite and upper class.
- iv. **Reference groups:** An individual uses the perspectives of a reference group as the basis for his/her 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, Beauty Soap 'Lux' was earlier endorsed by erstwhile leading movie stars like Leela Chitnis, Asha Parekh, Hema Malini and later by Kareena Kapoor and Deepika Padukone.

- v. **Family:** Purchases very often are not made by individuals alone but also by family members, who also have a say in the purchase decision. Therefore, it is important for marketers to acknowledge and recognize the role played by these various individuals in the purchase decision, to ensure that the marketing message reaches the target group. The various individuals who play an important role in the entire decision-making process are the initiator (the person who first initiates and communicates the idea of purchasing a particular product or service), information provider (the person who gathers the required information to make an informed purchase decision), influencer (a person whose opinions gain preference while making the final decision), decision maker (a person who makes the final decision), purchaser (a person who eventually purchases the product) and user or consumer (a person who in reality uses the product).

Example: Reference Groups Influence on Purchase - Thums Up

Thums Up, Coca-Cola India's homegrown brand, teamed up with Vijay Deverakonda to present the new 'Toofan' campaign for the brand. The brand was excited to present to its audience, the new face of action, Vijay, in its fast-paced and adventurous ad. Vijay starred in super successful films like Arjun Reddy, Geetha Govindam and the upcoming film Liger (expected to be released on 25th Aug, 2022). Youngsters were more connected to him due to his youthful films and action sequences. The target segment for 'Thums Up', youth, got influenced by the star Vijay in the advertisement. Stars like Vijay influence customers as they consider stars as a reference group, the basis for their actions, judgment and opinion.

For details, check out "Vijay Deverakonda Kicks Up A 'Toofan' In New Thums Ad", January 31st 2022, <https://english.sakshi.com/news/entertainment/vijay-deverakonda-kicks-toofan-new-thums-ad-150527> (accessed on 17/5/22).

Activity 4.4

'EnteKeralam' is a restaurant that serves Kerala cuisine. The restaurant also serves authentic traditional Kerala recipes in a traditional ambience during Onam. Like the example given, make a list of four services that have leveraged cultural practices to differentiate and influence consumer purchase decisions.

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Answer:

Behavior of Complaining Customers

Service firms constantly strive to reduce errors or mistakes in the service delivery process, however, much to the dislike of a service firm a service failure could be a common occurrence due to the nature of services. Service failures are bound to happen whenever the customer has very high or unrealistic expectations from a particular service. Apart from this, there could be a wide array of reasons for failures to happen like failure in communicating the service, employee performance, physical evidence issues etc. In several service failure incidents the reasons for failure may or may not be under the control of the service firm. Since it is agreed upon that service failures for a service business are inevitable, firms should always be ready to handle the response of customers after a service failure has occurred. Dissatisfied customers may take a range of action against a service firm at fault. For example, a customer may decide not to complain and switch or stay with the service or may decide to complain and vent out his/her frustration to a wide variety of people depending on the degree or severity of service failure. For example, a service failure which may result in monetary loss for a bank customer is much more severe than package delivered late by a few hours through a courier service. One of the responses/reactions which service firms often have to deal with are customer complaints and the firms need to have the right set of procedures and policies to mitigate the risk caused by complaining customers. To reduce the effect of one service failure incident a firm should ensure several positive experiences for that customer over several service encounters.

Why do Customers Complain?

Service firms must learn about the customers' complaints and the behavior which these customers display when they are venting out their emotions. This understanding of customer complaining behavior provides service firms essential tools to understand, satisfy and win dissatisfied customers in the long run. It has been shown through research that only a few customers who are dissatisfied because of a service failure complain, many of the dissatisfied customers do not raise their concerns or complaints and leave disgusted without even the service firm knowing that a customer has had a bad experience.

Some of the reasons why are:

- 1) **Informing the management:** Several customers complain just to let the management know about their experience. This is very helpful for the firm as they understand about the loopholes in their service.

- 2) **Helping Others:** Many customers complain to help others as they try to make sure that other customers do not also suffer from a service failure as they did during their service experience. So for these types of customers, it is a social obligation for them to complain.
- 3) **Seeking Recovery:** Customers expect that the service firm owes them an apology, a reasoning for service failure or they expect a compensation from the service for the service failure and hence customers complaint seeking some sort of service recovery.
- 4) **Cause Trouble:** In some situations, there may be customers who just like to complain and create trouble for the firm and other customers present in the service environment.

Why Customers do not Complain?

A complaining customer is in many ways good for the service firm compared to a dissatisfied customer who decides to switch to a competing service firm, without the service firm having a single clue on what triggered this behavior. However, as mentioned in the earlier section, customers often stay away from the hassle of complaining. These customers do not see any benefits of complaining and simply think that it is a waste of time and nothing is going to change, if they complain. It is also true that many service firms do not have the right avenues available for the customers to complain such as a customer care phone number which is readily available. Customers do not also refrain from complaining as they do not know how to complain. A segment of customers may also go into a self-blame mechanism and believe that the service failure is their fault and are not eligible for a proper service recovery. Service businesses should provide the right convenient avenues like contact details, customer care numbers, or website details to dissatisfied customers so that they raise their concerns about the service and not think about how or whom to complain.

Customer Expectation after Complaining

After a service failure, a customer may complain to a front line employee or even take legal action against the service firm. The effect of customer facing a failure may be reduced if the service firm treats the customer with fairness. The dissatisfied annoyed customer, after an unfortunate service failure incident, now expects to be treated fairly. This fairness which a complaining consumer might seek could be understood by the following three dimensions of fairness.

Procedural Fairness: This dimension deals with the customer assessing the policies and procedures adopted by the service firm to deal with the customer after the failure has happened and when the organization is trying to provide a recovery to reduce the customers' dissatisfaction towards the firm. If the customers perceive that the procedures adopted by the firm are fair, his/her dissatisfaction is reduced.

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Interactional Fairness: This relates to the behavior of employees towards the customer. If an employee as a part of providing service recovery to the customer is explaining to the customer the reasons for the failure, the customer sees how fairly or with how much conviction, regard, and effort the employee is putting in to resolve the issue.

Outcome Fairness: Concerns to the outcome of the service recovery. Customer tries to assess for example a compensation received after service failure, the customer might compare the compensation to the inconvenience caused by the failure and judge the fairness of the outcome of the failure and recovery incident.

If the firm manages to induce this perception of fairness, the complaining customers' dissatisfaction is reduced. The customer may decide to stay with the current service provider because of the fairness shown by the service firm in resolving the problem. Such practices may even reduce the negative word of mouth which this customer may spread about the service failure incident. So firms in the service industry should not only try to make their services error free but also put in a lot of effort in complaint handling and reputation management activities.

4.6 Implications for Service Providers

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

1. Customers gather and rely on information obtained from personal sources when making service purchase decisions. Therefore, marketers need to be very careful in satisfying existing customers by matching or even surpassing their expectations. If this does not happen, customers might spread negative word-of-mouth publicity.
2. Services, by nature are intangible, and hence customers often rely on the opinion of the service provider to evaluate the value of a service with high credence qualities. This gives service providers an opportunity to market services having high credence qualities and to add value to the service delivery process by assisting customers to assess the intangible features of a service.
3. In marketing of services, the customer becomes a part of the service delivery process and customer's participation or co-production is key to customer satisfaction. Therefore, it has become the buzzword for service providers as also customer participation effectively reduces the fixed costs incurred in delivering the service. To sum up, 'Customer co-production' refers to the active participation and involvement of customers in the service-production and delivery process of a service. Service that are co-produced, cost much lesser than the traditional over-the-counter services provided by marketers. Examples of customers' involvement in producing a service are actions such as making an online reservation for a train ticket or a movie ticket.

4. Time is also a crucial factor in service delivery and often it gives competitive edge to service providers. New-age-customers are willing to pay a little more for early or timely delivery of service. Service providers thus try to differentiate their service based on time taken to deliver the service. Time taken assumes greater importance in the case of services like Transportation and Logistics services that are time-bound. For example, Indigo Airlines, a low cost airlines, emphasized on-time-performance in its point-to-point flights and it is no surprise that it has emerged as No.1 airlines in India. Indigo continues to rule the Indian aviation industry with a market share of above 50% as of 2021.
5. Further, the intangibility characteristic of services also provides a very good opportunity and can be fully exploited by service providers who provide services online. Unlike in the case of physical goods, services can be offered electronically. Cyber-selling, cyber-trading, e-marts, etc. are a few examples of cyber-services.
6. Customers in the new millennium demand both quality and customization simultaneously. This poses a challenge for service providers as both these aspects have different requirements. Quality requires standardization while customization requires variability. However, marketers can take on this challenge by being a little creative. For example, in educational services, customers require standard course contents with a flexible delivery schedule. Educational institutions can offer a superior service experience to the customer by offering them a customized educational package and value-added services. Customers are willing to pay for such customized services. Executive and distance education courses, training and consulting business in India are examples of such services.

Example: Customization @ Mercedes-Benz

Mercedes-Benz introduced the Manufaktur program for the G-Class more than two years ago and now other models were getting the special treatment. It provided wider array of customizations on its new car models as of 2021 for extra cost. In this customization, buyers can order the body color of the car with the same silicon grey used during 1960s or iconic 300 SL Gullwing of 1980s. Manufaktur also provided customization for inside the cabin fittings with fancy Nappa leather with contrasting color combinations offered for the S-Class of 2012 model. Customers can mix and match many other shades depending on personal preferences, such as nut brown/black, truffle brown/black, and yacht blue/black. Along with maintaining high quality, Mercedes-Benz also provided high customization to its customers.

For details, check out: “2022 Mercedes-Benz S-Class Manufaktur Customization For High-End Models”, 12.10.2021, <https://mercedes-world.com/s-class/mercedes-benz-s-class-manufaktur> (accessed on 17/5/22).

Check Your Progress – 2

6. From the following instances, identify the one decision that involves a social risk.
 - a. To hire a tutor
 - b. To learn to drive a bike
 - c. To join a mental rehabilitation center
 - d. To party in a five-star restaurant
 - e. To join an education program
7. Identify the statement that does not hold true regarding culture.
 - a. It consists of the values, norms, roles, and customs shared by members of a society
 - b. It determines the values and attitudes of the people of that place
 - c. It remains the same everywhere and does not change from place to place
 - d. It determines the purchase behavior of the people
 - e. It impacts the way people judge products, brands, etc.
8. Under which of the following groups are people having similar lifestyles, interests, values, behaviors, and norms grouped under?
 - a. Family
 - b. Subculture
 - c. Social class
 - d. Reference group
 - e. Culture
9. Which of the following statements about customer co-production is not true?
 - a. It refers to the involvement of customers in the production and delivery process of a service
 - b. When service is co-produced, the costs are much higher than the traditional over-the-counter services provided by customers
 - c. Examples of customer co-production in services include purchasing a movie ticket online
 - d. In co-production, value is created as the customer participates in the production process
 - e. In the healthcare industry, particularly, customer participation of a very high order is required for effective delivery of service

10. Which of the following factors relating to the buying behavior of consumers is not true?
- Customers gather and rely on information obtained from personal sources when making service purchase decisions
 - Customers require the assistance of the service provider to assess the value of a service with high credence qualities
 - Customers get involved in the production and delivery process of a service
 - Customers give a lot of importance to time, and demand both quality and customization
 - In service buying process, the buyer and seller are less dependent on each other as compared to product buying process
-

4.7 Summary

- The intangibility property of services makes it difficult for customers to search for information, make a purchase decision, or even evaluate the service experience. This is due to the presence of more experience and credence qualities than search qualities in services. Hence, service providers need to deliver value-added services to their customers to provide them with a superior service experience.
- Decision-making is involved in every purchase decision, whether it is in the purchase of a product or a service. The decision-making process in the purchase of a service involves various steps such as need perception, search for information and the perceived risk, evaluation of the generated alternatives, the purchase decision, and the post-purchase evaluation.
- The decision-making process of the customer is also influenced by external factors like his/her family, culture, subculture, reference groups, and the social class to which he/she belongs.
- Marketers are coming up with several innovative ways to make service experiences memorable for the customer. They are also trying to retain old customers since this is more profitable for them than attracting new customers.
- Observing buyer behavior patterns helps marketers to target customers more effectively. The technological advances and globalization of economy make it possible for service providers to design new ways of providing their services.

4.8 Glossary

Consumer Behavior: It refers to the actions or beliefs that guide a person to purchase and consume a product or service. It deals with the study of the factors that influence a customer in purchasing a product/service, and the process that

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he/she goes through, to evaluate the product/service prior to and even after its purchase and use.

Credence Qualities: The qualities of a product or a service that are difficult to assess even after its purchase and consumption/utilization.

Experience Qualities: These include those attributes of a product or a service, which can be assessed by a customer only after its purchase and utilization.

Financial Risk: The risk faced by a consumer when he/she needs to pay for the product or service from his/her own resources.

Functional Risk: In the case of products, it is the risk faced by the customer of the product he/she has purchased, failing to function according to his/her expectations. In the case of a service too, there is a functional risk that the service may not deliver the results that the service provider has claimed.

Perceived Risk: It is the uncertainty faced by consumers when they cannot assess the post-purchase consequences before purchasing the product/service.

Physical Risk: Physical risk involves the risk to the physical safety of the customer by using the product/service.

Psychological Risk: Psychological risk is the risk of causing harm to one's self image by making a bad product/service choice.

Search Qualities: These are characteristics that can be estimated before the purchase or consumption of a product.

Social Risk: This is the risk of having to face social embarrassment as a result of making a poor product/ service choice.

Time Risk: This is the risk that the time spent on searching and locating a product/service prior to its purchase may have been wasted if the product/service does not conform to the customer's expectations.

4.9 Self-Assessment Test

1. A marketing analyst commented, "Usually, services are high on experience qualities and credence qualities while products are high on search qualities. This makes judging the quality of services difficult for the customers." Differentiate between the consumer evaluation process for goods and services, while explaining the given statement.
2. The buying process by a consumer is triggered by his/her specific needs. Describe the consumer decision-making process in detail. What are the external factors that influence the behavior of consumers?
3. Knowledge of the factors influencing consumer behavior has several implications for service providers. What are these implications? Explain in detail.

4.10 Suggested Readings/Reference Materials

1. Jochen Wirtz, Christopher H. Lovelock (2021). 'Services Marketing: People, Technology, Strategy' (Ninth Edition), World Scientific Publishing Co Inc. (USA).
2. Valarie A. Zeithaml and Mary Jo Bitner (2018). Services Marketing: Integrating Customer focus across the Firm. Seventh edition. New Delhi: McGraw-Hill Education.
3. Dr Ravikumar K (2020). 'Marketing and Services Management', Notion Press.
4. Dr. Subramaniam Seshan Iyer (2021). 'Marketing of Healthcare Services: A reference book', Notion Press.
5. Dr Manita Matharu, Dr Manish Joshi and Dr P Jagadeesan (January 2022). 'Service Marketing', Red'shine Publication Pvt. Ltd.

4.11 Answers to Check Your Progress Questions

1. (b) Credence

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

2. (b) Experience

Different goods and services have varying magnitudes of Search, Experience, and Credence (SEC) qualities. The search qualities of goods or service can be estimated before the purchase while the experience qualities can be evaluated only after purchase and consumption.

3. (a) Internal

Information can be collected either from internal sources or from external sources. External sources include personal and non-personal sources. The external (personal and non-personal) sources of information include personal sources, commercial sources, public sources, and experiential sources.

4. (b) Product trials

The external (personal and non-personal) sources of information include, personal sources, commercial sources, public sources, and experiential sources. Experiential sources include, product trials,

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observing, handling, and examining. Neighbors fall under personal sources of information. Consumer organizations and magazines of interest to consumers come under public sources of information.

- 5. (c) The intangibility characteristic of services makes the customer's perception of risk lower in the case of services than in the case of goods**

All the statements are true regarding perceived risk, except statement (c). In case of services, due to its intangibility characteristic, the customer's perception of risk is higher than that for goods. Hence, the statement that perceived risk of services is lower than that of goods is untrue.

- 6. (c) To join a mental rehabilitation center**

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

- 7. (c) It remains the same everywhere and does not change from place to place**

All the statements are true about culture except statement (c). Culture differs from place to place. Therefore, marketers should understand the culture of the different places in which they wish to market services.

- 8. (c) 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.

- 9. (b) When service is co-produced, the costs are much higher than the traditional over-the-counter services provided by customers**

All statements, except statement 'b' are true with respect to the concept of customer co-production. Statement 'b' is false. Customer co-production helps the service marketers reduce their fixed costs in delivering the service. When a service is co-produced, the costs are much lower than for the traditional over-the-counter services provided by marketers.

10. (e) In service buying process, the buyer and seller are less dependent on each other as compared to product buying process

All the statements relating to consumer behavior are true, except for statement 'e'. Option 'e' is false because, as compared to product purchase, consumers and producers are more dependent on each other in service buying. Co-production of service by consumer increases the mutual dependence of buyer and consumer in the case of service purchase and delivery process.

Unit 5

Customer Expectations and Perceptions

Structure

- 5.1 Introduction
- 5.2 Objectives
- 5.3 Understanding Customer Requirements
- 5.4 Customer Expectations
- 5.5 Types of Service Expectations
- 5.6 Factors that Influence Customer Expectations of Service
- 5.7 Managing Customer Service Expectations
- 5.8 Exceeding Customer Service Expectations
- 5.9 Customer Perceptions
- 5.10 Factors that Influence Customer Perceptions
- 5.11 Strategies for Influencing Customer Perceptions
- 5.12 Summary
- 5.13 Glossary
- 5.14 Self-Assessment Test
- 5.15 Suggested Readings/Reference Materials
- 5.16 Answers to Check Your Progress Questions

“Whether you sell hamburgers or computers, we’re all in the customer service business. Our goal must be to exceed our customers’ expectations every day.”

-- Dave Thomas

5.1 Introduction

As quoted aptly by Dave Thomas, service marketers need to exceed the customer expectations on a daily basis to succeed in their ventures. Over the past few years, marketing of services has picked up pace and became popular worldwide. Service organizations largely compete on the basis of the quality of service provided by them. While some companies successfully deliver quality service to their customers, others are just clueless. This is because providing quality service is based on how well a service organization understands customer expectations and how willing it is to meet or exceed these expectations.

Further, customers judge a service organization’s performance by comparing it (performance) with their perceptions and expectations. In the midst of intense competition, companies can be successful only if they are aware of their

customers' expectations and perceptions, and are able to consistently deliver quality service.

In the previous unit, we discussed consumer behavior. In this unit, we shall discuss the expectations and perceptions of customers.

This unit will first define customer expectations and then discuss the types of service expectations and factors influencing customer service expectations. It will then move on to learning how to manage and exceed customer expectations. Finally, it will touch on the factors that influence customer perceptions of service and strategies for influencing customer perceptions.

5.2 Objectives

After studying this unit, you will be able to:

- Identify customer requirements
- Define customer expectations
- Classify the various types of service expectations
- Explain the factors that influence customer expectations of service
- Discuss how to manage and exceed customer service expectations
- Define customer perceptions
- Identify the factors that influence customer perceptions
- Describe the strategies for influencing customer perceptions

5.3 Understanding Customer Requirements

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

Customer satisfaction also depends on their perception of a service provider's performance. How service providers perceive their own performance may differ from how customers perceive it. Customer dissatisfaction occurs when there is a difference between what the customer desires and what the service provider delivers.

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Example: Delta Airlines is Best in Understanding its Customer Requirements

Delta Airlines provides world class experience to the travellers across the globe. It had a dedicated team especially for customer service to assist passengers 24/7, to make their travel convenient and more memorable. Delta Airlines was ranked highest in the Overall Customer Satisfaction Index with a score of 860 on a 1000 point scale, according to the North America Airline Satisfaction Study conducted by J D Power during 2021. The study was conducted by taking eight factors into consideration viz., aircraft, baggage, check-in, boarding, in-flight services, flight crew, cost & fees, and reservation.

For details, check out “Attentive Flight Crews, Flexible Fares and Charges during Pandemic Drive Record High Customer Satisfaction with North America Airlines, J.D. Power Finds”, May 12, 2021, <https://www.jdpower.com/business/press-releases/2021-north-america-airline-satisfaction-study> (accessed on 17/5/22).

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

5.4 Customer Expectations

Customer expectations play a key role in a company's success and have a deeper meaning in services marketing. These may also include customers' predictions of future incidents in a service encounter or what the customers want to happen. Customer expectations are based on customers' experience with the product or service; feedback received from friends, colleagues, and relatives; or may be based on their present needs.

Customers do not expect service providers to fulfill all their requirements but they only expect that the service providers should deliver what they promised. They want to get a fair deal for the price they pay for the service. For instance, insurance customers often find that most of their requirements are not met by insurance policies due to exclusive clauses. This tends to confuse the customers as to what is actually covered by the insurance policy. However, such gaps in service delivery give service providers numerous opportunities to improve their service standards and meet customer expectations.

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

The five dimensions are:

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

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

Reliability: This refers to the ability of the service provider to accurately perform the promised service. This dimension of service quality conveys whether the service provider keeps his/her promise regarding the efficient delivery of service, handling of customer complaints, pricing, and so on.

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

Tangibles: This dimension of service quality refers to those elements, which provide tangibility to the service. Those (elements) include physical facilities, equipment of the service provider, dress and appearance of the service personnel.

**Example: L'Oreal is Best at Customer Service Expectations
Management through Tangibles**

L'Oreal, being a cosmetic brand, also started offering services like L'Oreal Salons across the world. Customers of L'Oreal Salon can avail services like hairstyling, makeup etc. These services involved tangibles like L'Oreal cosmetic products and equipment. During 2022, L'Oréal Group unveiled its latest beauty tech equipment Colorsonic, a lightweight, handheld device for consumers at home. And Coloright, an AI-connected haircolor system for salon stylists that leads to an on-demand, customized haircolor with more than 1,500 custom shades possibilities.

For details, check out "L'Oréal unveils latest beauty tech innovations ahead of CES 2022", January 3, 2022, <https://www.loreal.com/en/press-release/research-and-innovation/loreal-unveils-latest-beauty-tech-innovations-ahead-of-ces-2022/> (accessed on 17/5/22).

5.5 Types of Service Expectations

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

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

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

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service expectations. Desired service expectations of a customer increase when the customer is experienced and has good knowledge of what to expect in the service. For example, an executive who has travelled to many places on business and stayed in various hotels is experienced in receiving services of a certain standard. Thus, he/she desires and expects to receive a certain level of service at every hotel he/she stays in and is likely to evaluate the hospitality offered at each new hotel on those parameters.

The desired service expectations of a customer may also depend on the service expectations of an associated party. The associated party may be a customer's customer, which is often the case, when a firm has corporate or B2B clients. For example, in the case of supply of food by a hotel to an airlines company, the airlines demands superior quality food to be delivered by the hotel because customers of the airlines expect to be served food of superior quality on the flight. In this case, the hotel is the service provider, the airlines company is its customer and the passengers travelling by the airlines comprise the associated party.

The associated party may also be someone superior to the customer and to whom he/she is answerable. For example, consider the case of an HR manager hiring the services of a particular consultancy to take care of recruitment in the company. In this case, the service provider is the consultancy and the customer is the HR manager. The desired service expectations of the HR manager are based on the service expectations of the top management of the company, since he/she is answerable to them regarding the quality of recruitment in the company.

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

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

A customer's expectations of adequate service change with his/her perception of the available alternatives for the particular service. Customers' expectations of adequate service increase in situations of an emergency. For instance, train commuters in large cities such as Mumbai, tend to get frustrated at even the slightest delay in the arrival of local trains when they need to move fast. However, when there is a service failure during heavy rains, the commuters are willing to accept even the minimum service that is available. That is, when there is a service failure, the adequate service level decreases or comes down.

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

Zone of tolerance: It is the gap between a customer's desired service expectations and the adequate service expectations. This zone varies for each customer and for the same customer it differs in different situations.

Example: Ritz-Carlton is Best at Customer Delight Falls in Zone of Customer Delight

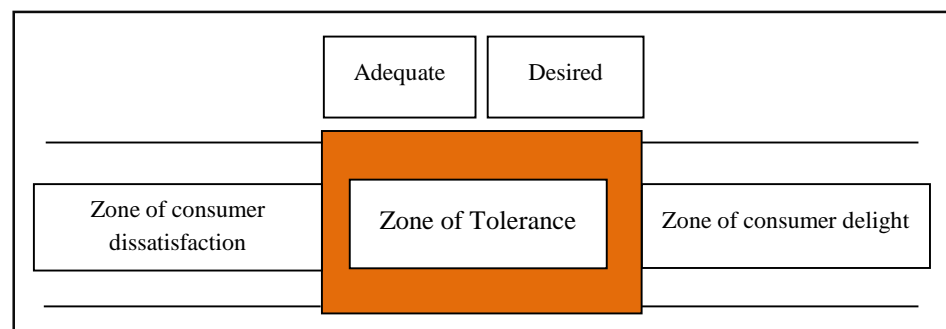
According to the 2021 North America Hotel Guest Satisfaction Index (NAGSI) Study, the overall customer satisfaction index ranking in luxury hotels segment was Ritz-Carlton with a score of 890 on a 1000 point scale. This study analyzed guest responses to more than 150 questions regarding branded hotel stay experiences and benchmarks the performance of 104 brands and collected responses from 32,963 hotel guests for stays between May 2020 and June 2021.

For details, check out "North American Hotel Guests Want Breakfast Back, J.D. Power Finds", July 14, 2021 <https://www.jdpower.com/business/press-releases/2021-north-america-hotel-guest-satisfaction-index-nagsi-study> (accessed on 17/5/22)

Zone of tolerance is defined as customer expectations of delivery of service on a scale ranging between desired and adequate level of service performance. Heterogeneity is an important characteristic feature of services. Performance may vary across service providers and between employees of the same service provider. Consumers too understand this and so long as the service performance fluctuates within a certain acceptable level, consumers perceive the performance as satisfying.

Figure 5.1 illustrates the zone of tolerance. On a rating scale, the zone of tolerance lies in-between. If delivery of performance is above the desired level of expectance, the consumer is delighted. On the contrary, if performance quality drops below the threshold level of tolerance, the consumer is dissatisfied.

Figure 5.1: Zone of Tolerance



Source: ICFAI Research Center

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Organizations must understand that fluctuations in performance within the range of zone of tolerance may not affect consumer perceptions significantly. A dip in service quality influences consumer perceptions and damages the image of the company only if performance moves outside the range, i.e., below the adequate performance.

The zone of tolerance varies from consumer to consumer. If a customer's zone of tolerance is narrow, then he or she may perceive high dissatisfying or delighting consumer experiences. On the other hand, if a consumer is less sensitive to the service experience, it means that the consumer has a wide zone of tolerance. The width of the zone of tolerance is also contingent on the situation (say, emergency or relaxed situation) which the consumer is in. In addition, the customers' involvement with the service and the importance of individual quality factors also play a role in determining the width of zone of tolerance.

Activity 5.1

Loyalty card schemes are the most popular promotional tools used by service marketers. Most domestic airlines in India have frequent flier programs. Jet Airways has Jet Miles, while Indian Airlines has Flying Returns. The retailing industry also is a major user of loyalty card schemes. Shoppers' Stop has the First Citizen's Club (FCC) scheme and Piramyd has the Piramyd Power Club (PCC) membership card for loyal customers. Analyze the reasons for the increased use of loyalty card programs in services marketing.

Answer:

5.6 Factors that Influence Customer Expectations of Service

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

5.6.1 Factors that Influence Customer Expectations of Desired Service

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

Customer needs are the needs represented in Maslow's hierarchy of needs. Customers differ in their expectations of desired service depending on their most vital need. For example, if a customer who is hungry and another who is thirsty

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

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

Derived service expectations of a customer are in turn influenced by the expectations of those who are dependent on the customer to provide them with a good service experience. For example, consider a situation in which an office outing has been arranged with the administrative officer being responsible for making the travel and food arrangements. The administrative officer's expectations of desired service from the travel and the catering company will be based on the expectations of desired service of every member going on the outing.

Customer's philosophy regarding a service has to do with the customer's attitude, and the service provider's conduct. A customer's philosophy regarding the service tends to be stronger if he is in some way associated with the service industry. This association of the customer may be in the form of either being employed in the service industry or having worked in the service industry in the past. For example, a retired banker knows more about the service standards in a bank and his/her service philosophy is stronger compared to other customers who do not have such a strong association with the banking industry. The desired level of service expectations of customers increases when their personal service philosophies are high.

5.6.2 Factors that Influence Customer Expectations of Adequate Service

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

Transitory service intensifiers are the factors, which intensify or heighten the level of adequate service expectations of customers. These factors include personal emergencies, failure of a service provider to offer quality service the first time, or factors that push customers to take the help of a service. For example, suppose a customer who is very hungry decides to try the service of a home-delivery provider of pizza who claims to deliver a pizza anywhere in the city limits within 20 minutes. Let us say, the hungry customer who awaits delivery in 20 minutes gets his pizza only after an hour and also the wrong pizza meant for another customer was delivered. The first-time service failure by the pizza home delivery service will increase the service recovery expectations of the customer the next time he /she orders a pizza from the same service provider. This time, the customer will expect the service provider to deliver the pizza of his/her choice within the promised time.

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

Perceived service alternatives include customer perceptions of available alternatives that offer similar service. The adequate service expectations of customers increase when they think that there are alternatives available to fulfill the need. For example, a customer in a big city who needs a loan to buy a house knows that he can get a loan from any of the nationalized or private banks or housing finance companies in the city. Hence, he/she will have high adequate service expectations than a customer who lives in a rural town with only a nationalized bank providing the requisite service.

A customer's self-perceived service role also affects his/her adequate service level expectations. The self-perceived service role of a customer is the extent to which the customer perceives he/she is capable of shaping the service encounter and influencing the level of service he/she receives from a service provider. A customer is likely to have high expectations of adequate service if he/she plays an active role in making the service provider aware of his service expectations. Further, the customer's expectations of adequate service are likely to be high if he perceives that the service provider is wholly responsible for providing a good service encounter and that the customer has no role to play in it. For example, a young girl who has knowledge in designing bridal dresses will actively participate in designing her own bridal dress and her adequate service expectations are high. Later, if the dress is not done according to her expectations, she will be very dissatisfied due to the active participation she had shown to ensure a good service delivery. However, despite receiving a bad service, a customer may or may not complain about it. If the customer has a low zone of tolerance and high expectations of adequate service, he/she will complain about the bad service. On the contrary if the customer's zone of tolerance is high he may not complain.

Situational factors are the factors, which make a customer compromise on his adequate service expectations on learning that the conditions of service delivery are not under the control of the service provider. For example, consider a situation in which there has been a power failure in some parts of the city as a result of which a cable service provider is not able to beam his programs. In such a situation, the zone of tolerance of the customers of the cable service provider increases and their expectations of adequate service reduce since the customers to understand that the supply of power is not in the service provider's control.

Predicted service expectations of a customer can be defined as the level of service a customer believes he/she will receive from a service provider. For example, a

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

5.6.3 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.

Explicit service promises are the statements made by a service provider in which he/she explicitly promises to provide a certain level of service. Explicit service promises made by a service provider through advertisements, personal selling, brochures and so on, heighten the desired and predicted service expectations of customers. For example, if a software-training institute advertises that doing a specific course at the institute can help one get a plum job in the United States. Candidates enrolling for the course will have increased desired and predicted service expectations. All those who enroll for the software course at the institute will desire to obtain a job in the US soon after they complete it. Further, the candidates doing the course begin to believe that the service provider will help them in getting a job in the US.

Example: Amazon is Best in Keeping its Explicit Service Promises for Improving Customer Satisfaction

Amazon was the world's largest online retailer and was world's 2nd ranked company by Fortune 500 rankings, in 2021. It made an explicit service promise with its 'The A-to-Z Guarantee' on its website. This guarantee protects customers when they buy items sold and fulfilled by a third-party seller. It covered both the timely delivery and condition of the items. If the customers are not happy with either and can't resolve the issue directly with the seller, they can make a claim directly to Amazon and Amazon's team will decide customer eligibility for a refund on some conditions.

For details, check out "A-Z Guarantee", May 2022, <https://www.amazon.com/gp/help/customer/display.html?nodeId=GQ37ZCNECJKTFYQV> (accessed on 18/5/22)

Implicit service promises: Implicit service promises are not explicit statements made by a service provider but are tangible clues that give a customer an idea of how the service will be. Tangibles related to a service are in the form of personnel of the service provider, process, and physical evidence. For example, the price that is set for a Taj Holiday package serves as an implicit service promise by the hotel group. Through its pricing, the Taj group promises to deliver to the

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customer, his/her money's worth and influence both desired and predicted service expectations of the customer. The customer desires service that is commensurate with the pricing of the package. In addition, customers predict to receive service of a particular standard due to the high price associated with it.

Word-of-mouth publicity: These include views or opinions of customers who have already used the service, or surveys conducted by experts. For example, the positive or negative opinion given by friends or relatives about a travel agency will influence a customer's desired and predicted service expectations.

Past experience: A customer's past experience influences his/her current expectations of service. For example, a customer who has visited a McDonald's outlet in New York, USA will desire and predict to receive service of the same standard at a McDonald's outlet in Mumbai, India.

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

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

Customers evaluate their service experience based on the following criteria.

Speed

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

Certainty

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

Ease

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

Personal recognition

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

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

Check Your Progress - 1

1. The gap between a customer's desired service expectation and the adequate service expectation is known as:
 - a. Zone of tolerance
 - b. Predicted service expectation
 - c. Desired service expectations
 - d. Implicit service promise
 - e. Zone of intolerance
2. The ability of the service provider and his/her employees to use their knowledge and courteous behavior to instill trust and confidence in customers regarding the service is referred to as:
 - a. Assurance
 - b. Responsiveness
 - c. Empathy
 - d. Reliability
 - e. Customer kindness
3. Which of the following terms refer to the minimal level of service that a customer is willing to accept from a service provider, based on the customer's perception of what level of service is acceptable to him/her?
 - a. Desired service
 - b. Adequate service

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- c. Predicted service
 - d. Zone of tolerance
 - e. Expected service
4. Which of the following is a dimension of service quality that refers to the service provider's ability to show concern and devote individual attention to each customer?
- a. Empathy
 - b. Assurance
 - c. Reliability
 - d. Responsiveness
 - e. Intangibility
5. Which of the following factors intensify or heighten the level of adequate service expectations of customers?
- a. Enduring service intensifiers
 - b. Perceived service alternatives
 - c. Transitory service intensifiers
 - d. Customer's self-perceived service role
 - e. Temporary service intensifiers

5.7 Managing Customer Service Expectations

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

5.7.1 Managing Promises

The first step in managing customer expectations is to manage the promises made by service providers. In order to successfully meet the service expectations of customers, service companies should promise only what they are confident of delivering rather than making promises which are difficult for them to fulfill. For example, consider the case of a courier company that claims it can deliver consignments anywhere in the world in three working days but messes up on a certain consignment by not only failing to deliver it within the stated time but also losing the contents of the package in transit. This gives the customer sending the consignment, a very unpleasant service experience because of the failure of the company to deliver what it promised. Some service providers intentionally under-promise the service to exceed customer expectations at the time of service delivery. However, this kind of practice will reduce the competitive attractiveness of the service. On the other hand, over-promising will increase the customers' expectations beyond the company's ability to meet them. Therefore, firms should

make an honest representation of their capacity to deliver the service through explicit means such as personal selling and advertising, and implicit means such as price of the service and appearance of the service facilities.

Example: Zomato is Popular for Best Managing its Promise of Delivering Food on Time

Zomato is an Indian multinational restaurant aggregator and food delivery company popular for food delivery 'On-Time or Free' promise and also 30 minutes or free delivery promise. But its founder felt that 30-minute average delivery time by Zomato was too slow and in 2022 they planned to launch Zomato instant with 10 minutes delivery time. The company was looking to adopt the cloud kitchen model to be able to achieve that kind of delivery time. The preparation and delivery of the food will be done through Zomato's own warehouses in order to successfully meet the service expectations of its customers.

For details, check out Shreya Bose, "Zomato Will Deliver Food In 10 Minutes! Talks On With Cloud Kitchens, Restaurants", March 19, 2022, <https://trak.in/tags/business/2022/03/19/zomato-will-deliver-food-in-10-minutes-talks-on-with-cloud-kitchens-restaurants/> (accessed on 18/5/22).

5.7.2 Reliability – “Getting it Right the First Time”

Customers give importance to reliability over the other four dimensions of service. Firms that fail to deliver reliable products or services the first time, fail their customers directly. Studies show that the service expectations of customers increase at the time of service recovery. When there is a service failure the first time, a customer's zone of tolerance decreases. Hence, during service recovery, customers' expectations of desired and adequate service increase for both the outcome dimension of reliability and process dimensions of tangibility, assurance, responsiveness, and empathy. Consider an example where the owner of an air-conditioner has called up the appliance company for a repair work. The company promises to send its executive at a given time on a said date, but fails to do so. This reduces the zone of tolerance of the AC owner. He/she expects the company to keep its promise, without any deviations, the next time the executive is scheduled to come.

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

5.7.3 Effective Communication

Companies should communicate effectively with customers to keep track of their expectations and views about the services provided. Communication can be

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initiated in two ways, either from the company or from the customer. A service organization can initiate proactive communication to inform customers about the latest developments in the organization that will help it serve them better. For example, consider a situation in which a hotel has introduced an online booking facility enabling customers to reserve a room through the Internet. The hotel can use its customer database to communicate the information regarding the new facility to all its customers, irrespective of the number of times they have stayed at the hotel. This action would delight the customers who stayed at the hotel only once or twice and increase the trust of their regular visitors. Service organizations can also manage customer expectations by seeking their suggestions or complaints about the service.

Activity 5.2

Indigo Airlines has captured a significant market share in the airline market within a short period after its launch. What strategies can other competing low cost airlines like Spice Jet and Jet Blue do to enhance customer satisfaction and prevent erosion of their market share by Indigo?

Answer:

5.8 Exceeding Customer Service Expectations

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

Customer satisfaction or dissatisfaction largely depends on how the service is delivered. Therefore, service companies, which aim to exceed customer expectations, should find ways to delight their customers with their service delivery process. Service companies have an opportunity to differentiate themselves from their competitors on the basis of the outcome dimension of service, that is, reliability of service delivery.

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

Example: Airline Travel Industry Could Not Exceed Customer Service Expectations in the Year 2022

As airline travel ramps up again, so too, apparently, has customer dissatisfaction. According to the J.D. Power 2022 North America Airline Satisfaction Study, the overall average airline passenger satisfaction score declined 22 points from last year's score of 820 out of a scale of 1,000. Still, that score of 798 was the second-highest average score in the survey in the past five years. The reasons for dissatisfaction were increasing fares, more crowded planes and airports and relatively fewer aircraft flying.

For details, check out Donna M. Airolidi, "Satisfaction Drops 22 Points in J.D. Power Airline Survey, May 11, 2022, <https://www.businesstravelnews.com/Transportation/Air/Satisfaction-Drops-22-Points-in-JD-Power-Airline-Survey> (accessed on 18/5/22).

5.9 Customer Perception

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

Example: Southwest Airlines is Perceived as Best Value Provider by Economy Class Passengers

Southwest Airlines planned to invest more than \$2 billion on enhancing its customer experience. It was the carrier with the highest customer satisfaction score for the economy segment in the J.D. Power 2022 North America Airline Satisfaction Study with a score of 849. Southwest began testing the new Wi-Fi equipment for free on select routes over the western mainland United States. The carrier also entered into an agreement with satellite connectivity provider Viasat to provide high-quality internet and live TV programming onboard newly delivered aircraft beginning in the fall of 2022.

For details, check out Donna M. Airolidi, "Southwest to Invest \$2B to 'Transform' Customer Experience, May 11, 2022, <https://www.businesstravelnews.com/Transportation/Air/Southwest-to-Invest-2B-to-Transform-Customer-Experience> (accessed on 18/5/22).

5.10 Factors that Influence Customer Perceptions in Service Encounters

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

5.10.1 Service Encounter

Customer perception of service quality is primarily influenced by the service encounter. A customer estimates the quality of service throughout his/her interaction with a service provider. For example, a bank customer's service encounter begins when he/she approaches the bank officials with queries, and is influenced by aspects such as the time taken to meet the senior officer, or to deposit or withdraw cash, the courtesy of the bank officials and so on. During these interactions, a customer would assess the quality of service offered by the service provider. Every incident in the service encounter sums up the customer's satisfaction and his intention to repeat business with the service provider.

Generally, researchers believe that the first encounter can be critical in a transaction. If a customer is not satisfied in the first encounter, he/she may never return to do business with that particular service provider. For example, if a person who visits an insurance company for settlement of his/her claim is not received properly by the employees of the company, he/she may not like to take any more insurance coverage from the company. However, in a series of service encounters, any encounter can be a critical encounter and will have an effect on the customer's satisfaction or dissatisfaction.

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

Types of Service Encounters

There are three types of service encounters: remote encounters, phone encounters and face-to-face encounters.

Remote encounters

Remote encounters do not involve any direct human contact. Examples include ATM machines, telephone answering machines, voice mail service, automated mail order service, and obtaining billing information on an automated service line. Customers can estimate the quality of a remote encounter with the help of tangible clues of the service (for example, the air-conditioning and piped music being played in the ATM enclosure or the length of the queue outside it) and the

quality of technical processes and systems. Service providers should ensure that the quality of these systems is maintained consistently to avoid the reputation of the company from being adversely affected.

Phone encounters

Over the years, the use of telecommunications has increased significantly. Companies have started offering telephonic services like customer inquiry, registration of complaints, taking orders, and reserving tickets. Service companies like utilities, insurance, telecommunications, and banking are using telecommunication facilities to provide service to customers. The service quality in such encounters can be estimated on the basis of variables like employee knowledge, tone of voice, and his efficiency or effectiveness in providing the service.

Face-to-face encounters

Face-to-face encounters involve direct human contact between a service provider and a customer. These types of encounters occur in places like restaurants, banks, and grocery stores. It is quite difficult to evaluate the quality of service in these encounters as it involves assessment of both verbal and non-verbal behavior. Further, in face-to-face encounters, customers play a role in the creation of quality service for themselves through their interactions with the employees of a service provider.

Factors leading to satisfaction or dissatisfaction in service encounters

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

Recovery

Recovery is a situation when a service failure has occurred and includes how well the employees of the service provider respond to the situation. Examples of service failure may include flight delays, failure to obtain a room in a hotel despite making the reservation in advance, and improper service in a restaurant.

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

Service providers should listen to their customers patiently and find out the problem at hand, clearly without any misunderstandings. Further, a service provider should accept his failure, apologize for it and assure the customer of his ability to correct the mistake. Service providers should also explain to customers how they are going to solve the problem and offer them additional benefits to satisfy them. Such measures reinforce the trust and confidence of customers in a service provider and make them form a favorable opinion of the service.

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Adaptability

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

Examples of adaptability include providing overdrafts on bank accounts, adjusting course schedules as per students' needs, offering special diet to patients on a flight journey etc. Customers assess quality of service in terms of flexibility of the service delivery system and that of the employees of a service provider in delivering the service. Such flexibility influences customers to have a favorable perception of the service.

Spontaneity

Spontaneity is the unsought or voluntary action of employees in delivering a service. Examples of spontaneity include responding quickly to emergencies, and voluntarily bending rules to accommodate the special needs of a customer. Voluntary behavior of employees to help customers will increase customer satisfaction. On the other hand, customers are dissatisfied if service employees ignore them, show discrimination, or behave rudely with them. Spontaneity of a service provider gives rise to a favorable perception about his service.

Coping

Coping is the process through which employees manage problems of customers and situations effectively. Examples of coping situations include having to pacify agitated and disturbed customers and handling their unreasonable demands. Such situations may arise when customers themselves are responsible for their dissatisfaction and fail to cooperate with the service provider and with other customers, law, or industry regulations. Employees find it difficult to please customers in such situations.

5.10.2 Service as Theater and Enacting of the Script

Service encounters are generally considered as complex processes; because environmental factors like servicescape interact with the delivery of service and influence consumer expectations, satisfaction level, consumer re-purchase intention, loyalty and word of mouth behavior. Servicescape is a concept that was developed by Booms²⁴ and Bitner²⁵ to emphasize the impact of the physical environment in which a service process takes place. The concept of servicescape can help assess the difference in customer experience between a fast-food franchise restaurant and a small, family-run restaurant. The service

²⁴ Bitner, M.J. (1992). "Servicescapes: The impact of physical surroundings on customers and employees". The Journal of Marketing: 57–71.

²⁵ Booms, BH; Bitner, MJ (1981). "Marketing strategies and organisation structures for service firms". In Donnelly, J; George, WR. Marketing of Services. Chicago, IL: American Marketing Association.

encounter stage is that where the customer directly interacts with the service providers. The consumers at this stage evaluate the quality of service and also simultaneously co-produce the service and co-create value.

A service setting is often compared to a factory. In a factory, raw materials are processed and goods are produced. In a service organization, customers are inputs and service providers focus on processing their requirements. Like, in an educational institution, students are inputs and education is imparted to students to make them educated. In a hospital, processing is done on patients to cure them of diseases. The satisfaction or dissatisfaction with the delivery of service depends on the sum total of the complex interaction of physical settings, appearance and behavior of contact personnel and interaction with other customers. In other words, managing service experience becomes an exercise in managing the impressions of customers.

Theatrical Approaches to Service Marketing

The high level of involvement of customers in the co-creation of service has motivated some service marketers to consider the service setting as a theater. If the service setting is a theater, then the service providers and customers play different roles like directors, script writer, lead actors, supporting cast members and audience. Further, drama production principles apply in all such situations where customers co-create the service. Let us understand this in detail by studying how customer experience gets enhanced as the customer gets more involved and plays roles delineated for him.

Moments of Truth

Service encounters are viewed as 'Moments of truth'. This is because the satisfied or dissatisfied feeling during such encounters leads to behavior like repeat purchase, word-of-mouth reference, etc. These moments of truth are nothing but the touch points, which are the crucial contact points during which consumers form opinions about service quality. Management of impressions during such encounters is, therefore, crucial.

Role Theory: Service as Theater

Service place is often compared to a theater, as all players, i.e., the service providers and consumers are playing roles to co-produce and create value. A role is a set of behavior patterns learned through communication or experience. The norms and expectations of society also define expected behavior from players of roles. Thus, in an educational environment, the teacher and the students have roles to play. Effective learning takes place only when students and teachers conform and act according to their roles. If either of the parties acts differently, it may affect the service delivery process, the performance and the satisfaction level of the consumers. If there is a change, due to changes in system, the same needs to be communicated to customers and the players have to act accordingly.

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Script Theory

If the service setting is a theater and service providers and consumers are actors who play roles, then it automatically follows that roles are better performed if the actors know their script well. Service organizations can better manage impressions, if they have an understanding of these concepts. Just like a movie script, a service script also can have well defined behavioral sequences. The employees receive formal training to learn scripts. Flight attendants for instance, receive training on what to say when guests enter and leave the flight. Walt Disney assesses employees in terms of their potential for on-stage work and on-stage employees are assigned roles for which their personality and appearance is best suited. In addition, they get training from Disney University.

Consumers as Producer

Customers too are expected to actively participate in the service production process. They learn appropriate behavior by experience or through interaction with fellow customers. In a flight, customers know what service to expect and what not to expect. Similarly, front office personnel in most organizations follow scripts and play their script to greet and interact with customers. When either of the players deviates from the script, it can be frustrating to all. However, not all service organizations follow tightly scripted performances. When services need to be customized to the requirements of customers, scripts are changed to suit the situation.

Customer Emotions and Moods

When companies connect with customer emotions, they can increase sales and revenue. Marketers have rigorously researched and tried to understand the feelings that drive customer behaviour. When emotional motivators are incorporated while engaging with customers, the brand's value to the customer increases and customer satisfaction improves. By incorporating a sense of thrill, a sense of independence/well-being, security, etc., the emotions and moods of customers turn positive and favourable towards the brand.

For example, Disney Land is able to incorporate a sense of thrill and fun in the service experience of customers.

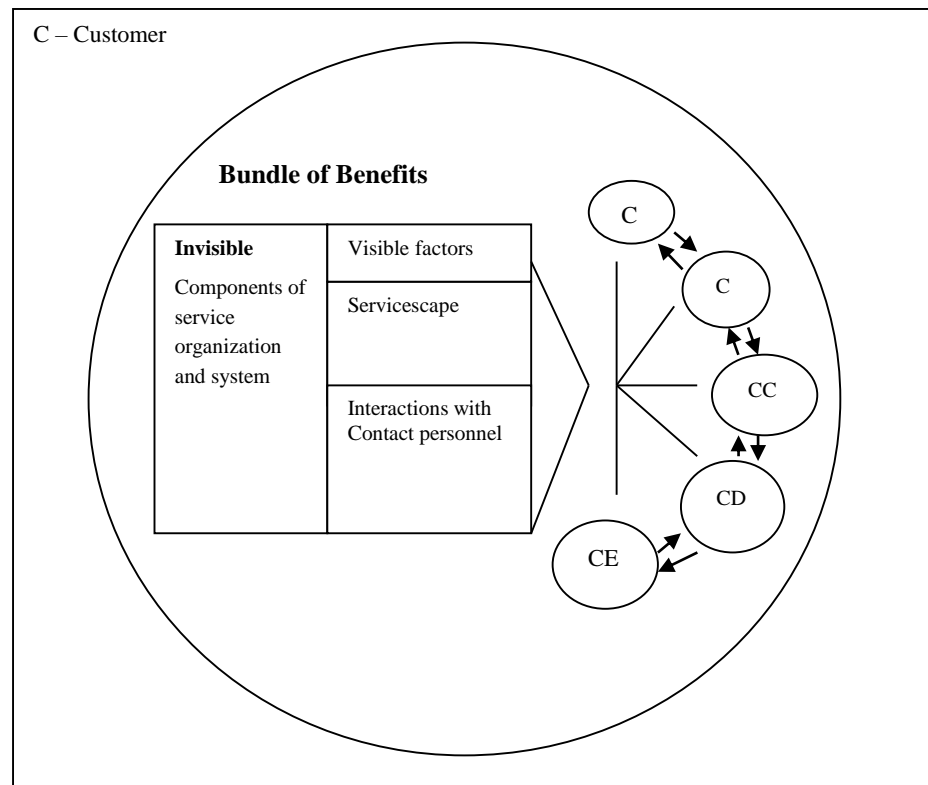
5.10.3 Servuction Model

Both products and services deliver a bundle of benefit to customers. When a consumer buys a product, say refrigerator, he/she would never get to see the place where the product is manufactured. Neither would he/she get to interact with employees involved in the process of production. Services incorporate both tangible and intangible benefits, which are delivered through service experiences. Let us consider the example of a guest who stays in a hotel. Here, the service experience of the guest is impacted by the servicescape (servicescape in the case

of a hotel includes the physical settings of the hotel including the room and the facilities provided), and other factors like the contact staff and personnel and interaction with other guests residing in the hotel. The Servuction model is a simple but powerful model explaining such factors that impact the service experience of the customer.

Figure 5.2 illustrates the Servuction model.

Figure 5.2: Servuction Model



Source: K. Douglas Hoffman and John E. G. Bateson, 2002

Servuction model incorporates both the visible and invisible components of service experience. The visible component includes all the three factors explained in the hotel example, i.e., servicescape, contact personnel and other customers. The invisible component includes those aspects which are not visible to customers, but, nevertheless determine the quality of service, like the cooling power of an air condition.

Servicescape

This includes the physical settings that influence service experience. Services are intangible, and hence cannot be objectively evaluated like products. Consumers therefore look for tangible cues and base their evaluation of service quality on the basis of the visible cues in the physical settings of the service environment which is also called servicescape. In an educational institution, students and parents look

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for tangible cues like building, furniture, library, educational exhibits, science laboratory and related aspects of physical environment that are designed to provide an ambience for education.

Contact Personnel

Contact personnel are the employees apart from the primary service provider who interact with the customers. In the educational institution example, the teachers are the primary service providers. In addition, other employees in charge of school administration and security are the contact personnel. Service personnel interact with customers and also act as a link between the customers and the organization. The impact of primary service providers and contact personnel on the service performance can be significant.

Other customers

Service organizations like schools, colleges, restaurants, hotels and hospitals serve many customers at the same time. The customers interact and share their favorable or unfavorable experiences. Hence, service experience in such organizations is also influenced by such shared experiences. The impact of other customers on a given customer can be active or passive. The impact of an unruly customer venting out his anger on service personnel in response to poor service can be profound. Service organizations must predict the impact of such customer interactions and appreciate that managing of customer interactions is the key to success. In a typical classroom setting, majority of the students are likely to report similar feedback about the class and the school because of shared experiences. Teachers thus need to introduce group activities to enhance the learning experience in classrooms.

Invisible organization and systems

So far, the visible components of the Servuction model and their impact on customer perceptions have been discussed in detail. The bundle of benefits that the customer receives is an outcome of the interaction that the customer has with visible elements (service settings, shared experiences with customers) and these visible elements are supported by invisible elements like operations, organization and systems. For instance, Amazon's or Flipkart's success depends on the supply chain and logistics that back the product offers in their websites. A bank's success also depends on the information processing it does based on the consumer data stored and this is not visible to the customer.

The Servuction model helps students appreciate that the four factors (three visible and one invisible component, i.e., organization and systems) combine to create great service experiences for the customer and these experiences are the bundle of benefits that the consumer receives. Further, the Servuction model underlines the fact that the consumer is an integral part of the service delivery process.

5.10.4 Service Evidence

Service evidence is another factor that influences customers' perception about a service. The intangibility characteristic of services makes customers look for evidences of the service in every interaction with the service provider. Therefore, service providers must manage even the minute tangible clues associated with their service, as customers will have certain perceptions about the evidence of the service on the basis of these clues. If a service provider fails to manage the service evidence, then there is a possibility that he/she may unintentionally convey the wrong message to his/her customers, which will have a negative effect on customer perceptions.

There are three types of service evidences – personnel, process, and physical environment.

Service personnel play an important role in defining the quality of a service encounter in the mind of the customers. The ability of the personnel to be enthusiastic, friendly, and spontaneous will make the service experience a pleasant one for customers. For example, fast-food restaurants such as McDonald's make their service tangible, by hiring people who are friendly and have a pleasing appearance, to serve customers.

The pleasing and friendly behavior of these personnel in their interactions with customers, enhances customer perceptions of service quality and results in customer satisfaction. In the case of McDonald's, the uniform color scheme, the environment, the graphics, dress code of the personnel, and the ubiquitous and familiar golden arches help to make the service element tangible. Another prominent example of a company, which makes service tangible through its personnel, is that of Walt Disney World. The theme park company enforces strict personal grooming standards for all its employees, known as 'cast members'. This helps the company maintain a uniformly pleasant appearance among all its service personnel and give tangibility to the service.

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

Physical environment is the third type of service evidence that creates an impact on customer perceptions. The physical environment consists of the ambience offered by a service provider, and the design of the interiors or exteriors of the service facility. For example, a couple who want to dine at a restaurant that offers a quiet and serene ambience, would avoid going to a crowded restaurant as they

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perceive that the restaurant is always noisy due to the large number of people it caters to. The design of the interiors has the capability to give rise to a positive perception about the service.

Example: Adidas' Uses New Age Physical Environment/Ambience and Visual Appeals in its Showrooms

Consider the much-hyped London flagship opposite Selfridges was full of innovative displays and bold visuals. The store was designed with flexibility in mind, movable cabinets and displays are found on every floor that allow Adidas to easily create a new activation or collaboration. Sustainability was intelligently visualized too. A dedicated 'Marley' sneaker display explained how the groundbreaking product was made using ocean plastics. Augmented reality displays were also abundant, adding an extra visual layer to sustainability storytelling and promoting visuals.

For details, check out Jack Stratten, "50 of the World's Best Retail Displays", February 21, 2020, <https://www.insider-trends.com/50-of-the-worlds-best-retail-displays/> (accessed on 18/5/22).

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

Shaping the first impression of the customer: A customer who does not have any information about a service will look for tangible clues to assess the quality of the service. Customers believe in what they see and form an opinion about the service organization and the service on the basis of what they see. Further, to many people, the first impression is always the best impression. Therefore, a service organization should try to use the first impression of customers to communicate its service commitment, competence and service customization ability. For example, a person who plans to go on a vacation estimates the various tourist packages available but the tangible clues he observes at the service office play a great role in influencing his decision. The tangible clues can be in the form of physical surroundings of the service facility or the display of certificates, plaques and trophies awarded for superior service quality, which help convey the commitment of the service firm to superior service quality.

Managing the trust of the customer: Companies try to win the trust and confidence of their customers in order to retain existing customers and attract new ones. Marketing of services is based on trust, as customers have to purchase a service even before experiencing it. Many restaurants set up a glass pane separating the kitchen area from the service area. This allows customers to view

how their food is being prepared in the kitchen. A common practice in several 5-star hotels is that when a customer orders for delicacies like crabs, the chef displays a live crab to the customer to obtain his approval before cooking it. In addition to increasing customer involvement in the service delivery, this also enhances the trust of the customer in the service quality.

Facilitating quality service: A customer's perceptions of service quality are shaped by a firm's ability to manage the tangible clues of its service. Often, customers form opinions about the quality of service by the way the service is delivered or the processes involved in the service delivery. Firms can enhance the value of their service by trying to attain perfection in the basic aspects of the service like orderliness, customer-friendliness, and cleanliness. In addition, firms should create evidence that appeals to the target market. For example, while marketing the movie 'Harry Potter', the distributors of the film also sold spectacles and toys of the kind used by the hero in the film to attract kids to the movie. Thus, the distributors were selling not just the movie, but the entire experience associated with it.

Providing a sensory stimulation to customers: Marketing of services is made easier by attaching an entertainment or fun factor to it. By doing so, a service provider stimulates the senses of customers and makes them realize the difference from other service providers. For example, a tourist destination that has an amusement park, bungee jumping, skiing, movie theatre, and trekking facilities will highlight the fun factor of the place and will be more attractive to most tourists than a tourist destination that is located on a hill with no such facilities.

Changing the image of service organizations: An organization that aims to change its image should give importance to managing the evidence. Changing the current image in the minds of customers and superimposing it with a new image is a difficult and challenging task for the service organization. For example, when McDonald's entered the Indian market, it easily succeeded in capturing the kids' and teens' market. However, to give itself an image that it serves the entire family and not just kids and teens, it launched a series of advertisements showing elderly couples eating at the restaurant and sharing tender moments along with delicious food, families celebrating birthdays at the restaurant, and so on. This strategy by the food chain helped change its image from that catering to the kids' and teens' market to being a complete family destination.

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

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For example, theme parks and several toy stores have service personnel dressed up as cartoon characters to convey the fun element and create a lively and buoyant mood in the other service personnel who will in turn be able to replicate the same while serving customers. Tangible clues of the service also convey the care and concern of a service organization towards its employees. For example, the ambience created in an advertising firm can help in stimulating the creativity of its employees as well as in conveying the right image to its customers.

5.10.5 Image

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

5.10.6 Price

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

5.11 Strategies for Influencing Customer Perceptions

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

The following strategies will help service organizations influence customer perceptions.

5.11.1 Enhance Customer Satisfaction through Service Encounters

Service organizations should understand that service encounters play a crucial role in satisfying or dissatisfying customers. To increase the satisfaction level of customers during service encounters, service organizations should innovate ways

of delivering their service. Further, service organizations should train their employees on ways to recover from a service failure, give them flexibility in delivering the services, offer tips to be spontaneous, and assist them in coping with difficult customers.

5.11.2 Reflect Evidence of Service

Before making a purchase decision, customers often try to assess the service evidence with the help of cues like the help extended by service personnel, the systematic and fool proof processes and the service settings of the service organization. They evaluate the behavior of the service organization's personnel in terms of friendliness, knowledge of procedures, and their willingness to help customers. Customers also assess the flexibility involved in the processes and the physical evidence in terms of ambience and layout. Organizations should understand the significance of these clues and make efforts to reflect evidence of their service in terms of their people, processes, and physical evidence.

Example: Marriott Trainee Programs Reflect Evidence of Service

International hotel chains like Marriott chain of hotels provide trainee programs and after that they hire the personnel which reflect evidence of service. Voyage is the name of the Management Trainee Program provided by Marriott hotels across 50 countries. The program lasts for 12-18 months depending on the area or discipline chosen and the country in which the program is provided. They hire 500-800 voyagers each year from around the world. Such programs inculcate best behavior in their personnel in terms of friendliness, courteousness, their willingness to help customers and knowledge of procedures etc.

For details, check out "List of Management Trainee Programmes by Hotels", June 6, 2021, <https://www.hospitalitywala.com/2021/06/list-of-management-trainee-programmes.html> (accessed on 18/5/22).

5.11.3 Communicate and Create a Realistic Image

A service organization should not only communicate its promises clearly but should also ensure that it keeps its promises. This will create a positive image of the company in the eyes of its customers. Word-of-mouth publicity about a company can create a positive or a negative image of it in the minds of existing or potential customers. While customers who have had positive experiences with the company will indulge in good word-of-mouth publicity, those who have had unpleasant experiences will try to tarnish the image of the company by indulging in bad publicity. Therefore, it is important for organizations to be realistic in making promises to their customers. They should desist from making exaggerated claims that could damage their companies' image in future, due to their failure to meet promises.

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5.11.4 Enhance Customer Perceptions of Quality and Value through Pricing

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

Activity 5.3

BK Fast Foods (BK) is the oldest restaurant chain operating in Southern India. However, in the recent past, its sales have been dipping and the customer traffic to its outlets is dwindling. It hired Markfirst, a market research agency to analyze reasons for its poor performance. The study conducted by Markfirst revealed that customer perceived it as a “tired brand”, which had lost its relevance in the present-day environment. What are the various ways through which BK Fast Foods can change the perceptions of the consumers?

Answer:

Check Your Progress – 2

6. Which of the following options include the views or opinions of customers who have already used the service or surveys conducted by experts?
 - a. Past experiences
 - b. Word-of-mouth publicity
 - c. Customer’s self-perceived service role
 - d. Explicit service promises
 - e. Expert knowledge of product
7. Which of the following is an effective indicator of service that raises customer expectations?
 - a. Company logo
 - b. Promotional campaign
 - c. Service delivery process
 - d. Employee behavior
 - e. Service setting

8. Which of the following represents the process of making a meaningful picture by selectively organizing a set of stimuli?
 - a. Belief
 - b. Attitude
 - c. Perception
 - d. Expectation
 - e. Prediction
 9. A pharmaceutical company, delivering a consignment of drugs at short notice to an NGO which is attending flood-affected victims, is an example of:
 - a. Coping
 - b. Recovery
 - c. Adaptability
 - d. Spontaneity
 - e. Reaction
 10. In the marketing of services, which of the following is defined as a customer's judgment about the service experience, and pertains to the aspects of value of service delivery, service quality, and customer satisfaction?
 - a. Customer attitude
 - b. Customer perception
 - c. Service expectation
 - d. Customer belief
 - e. Customer value
-

5.12 Summary

- Delivering quality service consistently gives a competitive edge to service organizations. Delivering quality services requires an understanding of customer expectations and the types of expectations.
- Knowledge of factors influencing the desired service level, adequate service level, and zone of tolerance will also help service organizations consistently meet and exceed the service expectations of customers.
- While evaluating the services offered by an organization, customers compare the perceived quality of service with the expected quality of service. Therefore, service organizations should have knowledge about customer perceptions and the influence of factors such as service encounter, service evidence, image of the service organization, and price of the service on customer perceptions.

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- Service organizations should also attempt to understand the various types of service encounters like remote, face-to-face, and phone encounters to be able to understand customer perceptions.
- Service organizations should examine the factors that influence customer satisfaction/dissatisfaction like recovery, adaptability, spontaneity, and coping, and come up with innovative strategies to influence customer perceptions.

5.13 Glossary

Adequate Service: It is the minimal level of service that a customer is willing to accept from a service provider and is based on the customer's perception of what level of service is acceptable to him/her.

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

Customer's Self-Perceived Service Role: The self-perceived service role of a customer is the extent to which the customer perceives he/she can shape the service encounter and influencing the level of service he/she receives from a service provider.

Desired Service Expectations: These are a combination of what a customer feels that a service provider can offer and should offer.

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

Explicit Service Promises: These are the statements made by a service provider in which he/she explicitly promises to provide a certain level of service.

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.

Perceived Service Alternatives: These include customer perceptions of available alternatives that offer similar service.

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

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

Reliability: This refers to the ability of the service provider to accurately perform the promised service.

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

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

Tangibles: This dimension of service quality refers to those elements which provide tangibility to the service. Tangibles include physical facilities, equipment of the service provider, and dress and appearance of the service personnel.

Transitory Service Intensifiers: These are the factors which intensify or heighten the level of adequate service expectations of customers.

Zone of Tolerance: It is the gap between a customer's desired service expectations and the adequate service expectations.

5.14 Self-Assessment Test

1. Providing quality service is based on how well a service organization understands customer expectations and is willing to meet or exceed these expectations. In what way can organizations understand customer requirements?
2. Customer expectations play a key role in a company's success and have a deeper meaning in services marketing than being mere requirements of a customer. Define customer service expectations. What are the various dimensions of service quality along which these expectations are measured?
3. To deliver quality service, it is essential to understand customers' expectations. There are various types of customer service expectations. Explain these in detail.
4. Service providers should have knowledge of the factors that influence customer expectations of service. What are these factors? In what ways can a service provider manage and exceed customer service expectations?
5. Perception, in general, refers to the process of making a meaningful picture by selectively organizing a set of stimuli. Define customer perceptions regarding services marketing. Discuss the factors and the strategies that influence customer perceptions.

5.15 Suggested Readings/Reference Materials

1. Jochen Wirtz, Christopher H. Lovelock (2021). 'Services Marketing: People, Technology, Strategy' (Ninth Edition), World Scientific Publishing Co Inc. (USA).
2. Valarie A. Zeithaml and Mary Jo Bitner (2018). Services Marketing: Integrating Customer focus across the Firm. Seventh edition. New Delhi: McGraw-Hill Education.
3. Dr Ravikumar K (2020). 'Marketing and Services Management', Notion Press.

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4. Dr. Subramaniam Seshan Iyer (2021). 'Marketing of Healthcare Services: A reference book', Notion Press.
5. Dr Manita Matharu, Dr Manish Joshi and Dr P Jagadeesan (January 2022). 'Service Marketing', Red'shine Publication Pvt. Ltd.

5.16 Answers to Check Your Progress Questions

1. (a) Zone of tolerance

Zone of tolerance is the gap between a customer's desired service expectations and the adequate service expectations. This zone varies for each customer and for the same customer it differs in different situations.

2. (a) Assurance

Customer service expectations can be measured along five dimensions of service quality -- assurance, empathy, reliability, responsiveness, and service tangibles. Assurance refers to the ability of the service provider and his/her employees to use their knowledge and courteous behavior to instill trust and confidence in customers regarding the service.

3. (b) Adequate service

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

4. (a) Empathy

Customer service expectations can be measured along five dimensions of service quality -- assurance, empathy, reliability, responsiveness, and service tangibles. Empathy refers to the service provider's ability to show concern for customers and devote individual attention to each customer.

5. (c) Transitory service intensifiers

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.

6. (b) Word-of-mouth publicity

Word-of-mouth publicity includes the views or opinions of customers who have already used the service or surveys conducted by experts.

For example, the positive or negative opinion given by friends or relatives about an educational institution will influence a prospective customer's desired and predicted service expectations.

7. (c) Service delivery process

Customer satisfaction or dissatisfaction depends largely on how the service is delivered. Therefore, service companies which aim to exceed customer expectations should find ways to delight their customers with their service delivery process. Service companies have an opportunity to differentiate themselves from their competitors on the basis of the outcome dimension of service, that is, the reliability of their service delivery.

8. (c) Perception

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

9. (d) Spontaneity

Spontaneity is the unsought or voluntary action of employees in delivering a service. Examples of spontaneity include responding quickly to emergencies, and voluntarily bending rules to accommodate the special needs of a customer. The given instance is an example of spontaneity.

10. (b) Customer perception

Customer Perception tells us what customers have in mind about a brand or a company's service offerings. In the marketing of services, perception is based on customer's interaction with service personnel and also the quality of service experience. Also perception is derived from the value that the customer attributes to the service and the level of satisfaction the customer derives from the service.

Unit 6

Listening to Customers

Structure

- 6.1 Introduction
- 6.2 Objectives
- 6.3 Using Marketing Research in Services
- 6.4 Approaches to Service Research
- 6.5 Stages in Marketing Research
- 6.6 Service Quality Information System
- 6.7 Uses of Marketing Research Information
- 6.8 Upward Communication
- 6.9 Definition of Quality and its Significance
- 6.10 Measuring Service Quality
- 6.11 Service Quality Gap Model
- 6.12 Dimensions of Service Quality – SERVQUAL Model-based on RATER Scale
- 6.13 Service Quality Standards
- 6.14 Benchmarking
- 6.15 Total Quality Management
- 6.16 Strategies for Improving Service Quality
- 6.17 Monitoring Service Quality
- 6.18 Summary
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- 6.20 Self-Assessment Test
- 6.21 Suggested Readings/Reference Materials
- 6.22 Answers to Check Your Progress Questions

“Spend a lot of time talking to customers face to face. You'd be amazed how many companies don't listen to their customers.”

-- Ross Perot

6.1 Introduction

As rightly quoted by Ross Perot, the important success factor for organizations is to properly listen to their customers and understand what their needs are. The success of a service firm depends on its ability to develop appropriate business plans and strategies to suit the changing markets and its own needs.

These plans and strategies require information inputs like the latest demographic data relating to the target market, existing demand, latent demand²⁶, realistic estimates of future demand, customers' perceptions and expectations, and also competitors' action plans. The accuracy and reliability of this information determines the efficiency of a business plan/strategy. Market research helps businesses in gathering such information and this information in turn, helps them understand and cater to customer expectations.

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

In a manufacturing organization, it is comparatively easier to ensure quality of their product as the standard and specification remains same across all markets and customers. However, in the case of a service organization, the quality of service depends on the perspective of a person. What an employee believes is quality service may not be perceived as such by the customer. At the same time, service organizations cannot offer a completely standardized service as some customers prefer a customized service offering to suit their needs.

In the previous unit, we discussed customer expectations and perceptions. In this unit, we shall discuss the various strategies that firms can use to effectively listen to their customers and work towards delivering a service quality they would be satisfied with.

This unit discusses the use of marketing research in services and the various approaches to conduct it. It then talks about, the various stages in marketing research. It then discusses the concept of service quality, various dimensions of service quality i.e. SERVQUAL model based on RATER Scale, and how to measure it. This unit also explains the concept of service quality standards, benchmarking and TQM (Total Quality Management). The unit ends with a discussion on strategies for monitoring and improving service quality.

²⁶ Latent Demand is a need/desire/want that a consumer is unable to satisfy due to various reasons like: Insufficient purchasing power, non-availability of product, lack of information about the existence of the product.

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6.2 Objectives

After studying this unit, you should be able to:

- Recognize the importance of using marketing research in services
- Explain the various approaches and stages in marketing research
- Identify the uses of marketing research information and importance of upward communication in listening to customers
- Define quality and how to measure service quality
- Discuss the service quality gap model, service quality standards, benchmarking and TQM
- Describe the strategies for monitoring and improving service quality

6.3 Using Marketing Research in Services

Every year, General Motors spends millions of dollars on market research to identify new and unsatisfied needs of customers and come out with products that satisfy these requirements. This investment is worth-making, because of its ability to generate huge revenues (in billions of dollars). Marketing research has been typically used by service firms to make decisions related to appropriate marketing mix. Service providers can use marketing research to know the strengths and weaknesses of their competitors, identify new markets, develop innovative service offerings, and identify the latent demand for a new service and to find ways to delight customers. They can also use the information to find ways to gain a competitive advantage over competitors. Information from market research is also used by firms to identify the right partners in the industry to derive maximum mutual benefits. The examples of FedEx given below illustrates how the company uses information to improve service quality to enhance customer satisfaction.

Federal Express uses ongoing studies and mail surveys to this date (2018) to study customer satisfaction. The mail surveys are used to study the quality of FedEx services in-depth by exploring specific aspects of service. These studies of service quality are a part of FedEx's ongoing customer satisfaction study. FedEx also monitors service quality internally through its 'Service Quality Indicator Program', to track the number of items packages were delivered late (in a week/month) or the number of times packages were wrongly delivered, etc.

Example: Marketing Research at edX

edX - founded in May 2012 by scientists from MIT and Harvard, taken over by 2U, offered many courses on online platform for students worldwide. edX courses consisted of weekly learning sequences. Each learning sequence was composed of short videos interspersed with interactive learning exercises.

Contd....

Along with this, edX collected the learner's clicks, analyzing the data, as well as collecting demographics for each registrant. Also, edX focused on improving retention, course completion and learning outcomes in traditional campus courses and online. This entire process undertaken by the Education Monarch can be summarized as marketing research.

For details, check out "About US", <https://www.edx.org/about-us>, May 2022 (accessed on 24/5/22)

6.4 Approaches to Service Research

Service providers can use many approaches to obtain feedback from the customers and/or employees and take necessary action to improve their service. Some of them are discussed below:

6.4.1 Post-transactional Surveys

In these surveys, service firms attempt to get feedback from the customer immediately after the service is provided to him/her. For example, diners are given a feedback form after a meal in most restaurants or fast food joints like Pizza Hut. As the customer participates in the survey and responds to the questionnaire immediately after he/she experiences the service, he/she is more likely to give a realistic picture of the quality of the service. Thus, the firm would benefit by getting the right suggestions for improvement. Firms can use this feedback to evaluate the performance of their front-line employees and reward those offering high quality services. This encourages employees to deliver quality service to customers and win rewards and incentives. If the feedback is poor, the service provider gets to know specific areas where service quality needs to be improved. The survey provides insights on customer expectations, based on which the firm can take necessary steps to improve their service in terms of better infrastructure or training programs for employees.

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

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Example: Use of Post Transactional Surveys at Domino's Pizza

Domino's Pizza Inc., a US chain of pizza restaurants, had almost 8,000 restaurants around the world. As the company found that there was a decline of satisfaction among its customers, it decided to do an online survey on customer satisfaction. It was found at <https://feedusback.dominos.co.uk/>. The customers had to begin the survey with the details of their latest orders with the company. The survey would help Domino's to improve the service wherever pointed out by the customers.

For details, check out "Domino's Pizza Survey", January 20th 2022, <https://www.customer-survey.com/feedusback-dominos-co-uk/> (accessed on 24/5/22)

6.4.2 Customer Complaint, Comment and Inquiry Surveys

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

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

Some companies that yearn for excellence in customer service are willing to go to great lengths to ensure it. However, organizations should not depend on complaint and comment surveys alone to develop their marketing plans and strategies. This is because many customers do not complain, but shift to a competitor if they find that the service offered by a particular company is unsatisfactory.

Total Market Surveys

In total market survey, firms attempt to take the opinion of all the customers in the market, including existing customers, lost customers and potential customers, about their services. By interviewing customers who switched to competitors, the firm can get to know the factors that led to their dissatisfaction. By listening to potential customers, the firm can find out what their expectations are. The survey helps the firm know where it stands in the view of customers vis-à-vis its competitors in terms of quality of service. It also highlights factors that lead to satisfaction/dissatisfaction among customers, providing further insights on how to improve the system to retain existing customers and attract lost and potential customers. Total market survey can also be conducted in a market to identify the latent demand for any service that is non-existent in the market. For example, an entertainment company may propose to open an amusement park for the first time in a south Indian city. If there are no amusement parks in the city, the company will not know what kind of response to expect from the citizens. It can then go in for an open-market survey in the city to understand the latent demand for the amusement park and customer expectations from it. This will help it take a decision on whether to open an amusement park or not, and if it does decide to do so, what features are to be included.

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

6.4.3 Employee Surveys

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

The management in some organizations makes the mistake of considering the communication between a front-line employee and the customer as the only essential factor that leads to quality service. However, interaction between

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various employees within the department and across various departments before the service is delivered to the customer is equally important and is often overlooked. Employees can identify problems relating to service quality quickly and help management in improving service standards. Thus, a service organization would benefit by conducting an employee survey and allowing the employees to express their views on the standards of customer service and the problems perceived by them in delivering quality service.

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

Activity 6.1

UB group, India's leading alcoholic beverages manufacturer, is entering into the low-cost airlines business. If it wants to conduct a market research study, what are the options that are available to it? Which option will be most appropriate for the company?

Answer:

6.5 Stages in Marketing Research

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

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

Defining Problem and Research Objectives

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

The problem-definition phase is the most critical phase in the process of marketing research. Generally, in an organization, the manager in a responsible position in the marketing division identifies and defines the problem and approaches a marketing research analyst. The analyst conducts the research and provides information on pre-determined factors to the manager. The manager then takes a decision based on the results of the research and his own observation and experience. However, defining a problem is not an easy task. Sometimes, problems are not obvious and what looks like a problem may actually be only a symptom of the actual problem. Let us analyze the case of a services firm that is losing its customers to competitors and is unable to attract any one from them. The reason could be high price or poor quality service, or ineffective promotion or a combination of these factors. The manager may fail to define the problem accurately as there could be several factors responsible for it. In such cases, he can take the help of a marketing research consultant/analyst in defining the problem itself. The consultant/analyst will help the management in identifying the problem and thereby the marketing research objectives. Sometimes, an analyst may frame questions and seek answers for them from the research. The research objective and the related questions play a very important role in guiding the research effort. Once the research is complete, any changes made in the objective would render the research futile and the information collected irrelevant. Therefore, all the time and money spent on the research would go waste. For the same reason, the consultant/analyst and manager should interact frequently and discuss the research objectives and questions in the initial stages itself. For redefining the research objectives, the analyst could pose the following questions to the manager:

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

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

Example: Marketing Research at McKinsey

In 2019, McKinsey - a leading management consultancy firm - conducted a study to know the emerging trends in consumer shopping behavior. The study found, personalization of goods and services can boost total sales by 15 to 20 percent. The study had to indicate the research objectives and provide findings of marketing research.

For details, check out: “The 2019 holiday season: Shoppers are ready to spend but retailers need to personalize”, October 29, 2019, <https://www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/the-2019-holiday-season-shoppers-are-ready-to-spend-but-retailers-need-to-personalize> (accessed on 16/5/22)

Selecting appropriate scale for measuring services

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

The interval scale is used to measure the differences in attitudes and opinions of customers. On an interval scale, the distance between adjacent points on a scale

are meaningful, but there is no absolute zero. For example, say a beauty saloon offers the basic package at ₹ 500. It would like to know how much more its customers would be willing to pay for some additional features. The customer feedback gave the following results: Perming – ₹ 100, Massage – ₹ 200, Dyeing – ₹ 150. Based on these results, the management might decide to include massage in its basic package as the customers are willing to pay ₹ 200 more for it.

The ratio scale is used to measure the willingness of customers to pay higher or lower for some services, compared to other services. To understand this better, let us consider the example of an entertainment firm looking for a business opportunity in Hyderabad. It conducts a market research and asks the citizens how much they would pay to watch a movie at a video parlor, at a 35mm theater, at a 70mm Dolby theater and at a multiplex theater. The differences between the prices quoted by the respondents have a definite meaning and reflect the degree of their preference. There exists an absolute zero in this scale. The manager and analyst can choose any measurement technique but they should ensure that it measures the required variables with precision. Before selecting a technique, they should test it to check its reliability, sensitivity to changes, ease of use and relevance.

Developing and Implementing the Research Program

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

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

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Coding and Tabulating Data

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

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

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

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

Interpreting and Analyzing Findings

The data collected from research is then interpreted and analyzed to arrive at meaningful conclusions. Interpretation and analysis require people who have an in-depth knowledge of not only the subject, but also the requirements of the

organization conducting or sponsoring the research study. For example, from the 1000 responses for a research study by a service organization, it was concluded that 28 percent preferred to spend the weekend at home, 19 percent to go out for dinner, 24 percent preferred a family outing, 11 percent to go for a movie and the rest preferred to hang out with friends. But, what do these findings mean for the organization conducting the research? The analyst needs to understand the organizational requirements to come out with a concrete finding.

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

Reporting Findings

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

6.6 Service Quality Information System²⁷

In order to improve service, companies need to continuously listen to what consumers say and respond, and for this purpose they must establish ongoing listening systems that use multiple research approaches. A single service-quality study may provide information from a particular dimension. To obtain deeper insights to make informed decisions on an ongoing basis, a firm needs continuous series of studies made from different dimensions. Such a multiple research approach forms the basis of systematic listening. Such a series of studies would bring to the fore shifting patterns of change. For example, only a series of studies

²⁷ Leonard L. Berry, "Marketing Services: Competing through Quality", Publisher: Simon and, Schuster, April 2004

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could provide information on shifting customer preferences and improving or declining performance of the firm (as against that of competitors) in the light of such changes.

An effective service-quality-information-system offers many benefits to a firm. It provides decision makers a holistic view of service quality, along with snapshots of performance of the firm on specific areas as well. It provides insights on the following areas:

- Which service attributes are more important from customer's perspective?
- It throws light on which areas of the service systems are performing well or breaking down.
- An efficient service quality information system enables a firm to focus on service improvement through effective planning and resource allocation.
- It enables comparison of service performance of various units, divisions, service employees.
- Compensation can also be linked to service performance to improve efficiency.

To sum up, genuine service improvement can be planned only on the inputs obtained from an effective service quality information system. An efficient service quality information system in turn is nothing but systematic listening to what customers say, feel, need and want.

6.7 Use of Marketing Research Information

Marketing research enables organizations to collect real-time information and facts about the markets they are operating in. For example, a service firm can collect information on the opinion of its customers regarding the new service launched by it. Marketing research will also help the management find out the reason behind the change in customer behavior or the reasons for the success or failure of a service offered by the organization. It will also help the management gauge the impact of any change initiated by the organization in the marketing mix of different services offered by them. For example, they can find out the response from customers after opening a new outlet at a new location. Marketing research can also be used to find out whether setting up a new outlet at a particular location would be profitable or not. Marketing research also helps the management estimate the future trends in the market and prepare themselves to face the challenges. Sometimes, the results of a research study may become obsolete and redundant within no time, thus making all marketing plans and strategies based on it irrelevant, and, therefore, unsuccessful. Market research should, therefore, be a conscious and continuous process in organizations, rather than a one-time effort. The example of British Airways illustrates a case of incomplete market research that impacted sales.

British Airways conducted a large-scale market research in the 1990s to find out what customers wanted from air travel service providers. The research showed that customers valued luxury seats, good food, and a wider choice of videos. British Airways took care of all these aspects only to find its customers switching to competitors like Delta, Lufthansa, and American Airlines. This was because British Airways failed to give attention to the technology aspect. More and more people, especially the business executives were using their laptops on the flight. They preferred planes that provided power sockets in the arm rests of seats and sufficient leg-space. Thus, British Airways lost business to other players who acted proactively to provide these facilities on all their planes.

6.8 Upward Communication

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

Customer Defined Service Standards

A service firm always tries to provide the best services to the customer while trying to minimize cost, increasing efficiency and productivity which in turn improves companies profit. Such service standards are set by a company to meet its internal goals. Such practices develop service delivery standards from the perspective of the management, whereas these service standards should be developed and implemented from the perspective of the customers. More specifically the service firm has to understand customer expectations and design service delivery standards according to those expectations set by the customers. A service standard indicates to a company what its customers are expecting and how they should deliver the service. So, service delivery standards should not be based on what the company feels is right and good but the standards should be a reflection of what the customer wants.

To understand customer expectation several methods like customer survey, customer feedback etc. can be used, basically the service firm has to listen to its customers to develop proper service delivery standards which are in line with customer expectations.

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Types of Service Standards

Customer defined service standards can be of two types “hard standards” and “soft standards”.

Hard Customer Defined Standards

These are service standards which can be directly measured, counted or timed. Company can use audits to measure several such standards. For example, number of packages delivered by a courier company. In this case the courier company can just count how many packages were rightly delivered to the customers in a day or week. Other examples in the similar context could be number of hours to deliver the package, number of right packages delivered or number of packages lost.

Soft Customer Defined Standards

These are service standards which cannot be directly observed or counted. For example, a customer care representative talking politely to a customer. To measure if the employee as per the delivery standard was polite to the customer or not has to be found out by giving the customer a feedback form and asking the customer about employee interaction. So here the opinion of the customer is important.

Developing Customer Defined Standards

Service standards should be based on customers’ needs. To understand customers listening to customers becomes crucial. It is more challenging for large organizations with customers located at different geographies and possess a wide array of diversity. A company can develop appropriate customer defined standards by using the following sequence of activities.

Identification of service encounter sequence

Company has to identify which are the touch-points or “moments of truth” where the customer interacts with the company. In each of these service encounters there must be some customer expectation which the firm needs to fulfill. From the company perspective a hotel may think that the first service encounter is when the guest walks into the hotel; however from the customer perspective the first phone call or booking before visiting the hotel may be essential for their satisfaction.

Convert customer expectations into behaviors and actions

In the previous step company might have collected information in a very abstract manner. For example, a customer would want a front line employee at a fast food restaurant to be more responsive. This broad term of being “responsive” has to be converted to certain steps or actions which makes the staff responsive to the customer. For example, in the reception of a hospital can some of the actions by the employees be reduced so that the patient can consult the doctor faster.

Applying appropriate standards

The service firm at stage needs to determine whether a hard or a soft standard should be used to measure the behavior or action. Standards should also be established keeping in mind the resources in the company. For example, rather than number of calls made to the customer, first time call and resolution of customer problem could be a standard which seems appropriate.

Establish appropriate measurements for standards

Once it is decided that a hard or a soft standard would be used, methods and mechanisms have to be developed to capture the information. For example, a feedback system which captures customer opinions in the case of a soft standard. Most customers are reluctant to provide the right feedback so service organizations have to find ways to get the required feedback in an efficient manner without any customer discomfort.

Determine target levels of standards

A target level for standards has to be implemented to see if the implementation of the standard is having the desired effect of meeting customer expectations. For example, a company may decide that a customer problem should be resolved within four hours of receiving the call from the distressed customer. The company should think whether the employees are capable enough to provide such a service to the customer, and then decide on appropriate time frames for resolving customer problems.

Track measures against standards

Service firms should continuously keep track of the established measures to evaluate different standards. Companies should think about necessary changes to the existing measures or the way they are measured. One change could be assigning more weight to a certain aspect of the standard which is more important for the customer. For example, a courier company may assign more weight to a lost package as compared to a package delivered late to the customer. Both situations are bad for the company but from the customer point of view the lost package is a more pressing issue which the company has to resolve.

Educating employees about performance

After the measures to assess standards are established to capture customer requirements the employees of the service firm must be made aware about the performance of the people. For example, in a customer care department a supervisor listens to employee and customer conversation to monitor performance and provide necessary training to the employees. Many companies may decide to provide such feedback in a form of a timely, weekly, or monthly feedback report.

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Improve target levels and measures

Companies should also revise target levels of measures and standards depending on the changing customer expectations. For example, a company may change the minimum time to resolve customer issues from 48 hours to 36 hours, which is a huge improvement in processes and takes care of customer expectations as well.

6.8.1 Objectives of Upward Communication

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

Executive visit to customers

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

Example: Understanding Customers through Direct Meet with Customers at P&G

Procter & Gamble Co. (P&G) was one of the largest consumer goods companies in India manufacturing products including family, personal and household care. The company focused on market research. In one of such research projects, P&G decided to visit various societies in Mumbai and conduct a playoff between ladies with their newly launched Tide detergent. This was an effort from P&G's research team to reach out to the customer directly at their homes to gather the customer's view on the product. The best way to get first-hand information was by making personal visits to customers and interacting with them. During the play-off between the ladies, P&G got an opportunity to gather direct view from the users of the product by visiting them.

For details, check out "P&G's 2021 Citizenship Report", May 2022, <https://us.pg.com/> (accessed on 24/5/22)

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

Executive or management listening approaches

Executives can listen to customers by making personal visits or telephone calls or through e-mails and fax. They can also go through the customer feedback forms or books to get first-hand information on customer expectations and requirements. They can also use other approaches like communicating with front-line employees who work in close contact with customers and addressing customer advisory panels. An organization can form an advisory panel of customers by inviting a few interested people from the customer community to communicate the needs and desires of the community. The members of the panel

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attend meetings conducted by the executives from time to time, or respond to telephonic interviews and questionnaires mailed to them to convey the feedback. The members provide feedback on the quality of service offered by the organization as well as provide suggestions to improve service.

Research on external customers

Research on external customers helps the organization gather valuable insights into customer behavior, their requirements and expectations. This, in turn, helps the organization redesign its marketing mix to derive the maximum benefits.

Research on internal customers

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

Research on intermediate customers

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

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

Employee suggestions

Many employers are saving costs and even making profits by accepting invaluable suggestions from their employees. Under the suggestion programs implemented in most organizations, employees who give the best suggestion are rewarded through monetary or non-monetary benefits. Organizations can significantly improve the quality of customer service by implementing the good suggestions given by their employees as a part of the suggestion scheme. Employee suggestions have always helped service organizations in big way. Amazon has an internal website exclusively for employees which features a virtual idea box. Employees can post or submit any idea that comes to the mind. Amazon has received a number of brilliant suggestions through this virtual idea box, which is similar to the age-old-suggestion box. Charlie Ward²⁸, a former software engineer, suggested that Amazon should go for free shipping. This idea which was immediately considered formed the bases for Amazon's highly successful 'Amazon Prime Program'. Charlie Ward, is presently (2019) Vice President, Technology of Amazon.

Organizations also benefit from new and innovative suggestions from employees. The traveler's cheque, a service offered by banks throughout the world today, is

²⁸ Jason Del, "The making of Amazon Prime, the internet's most successful and devastating membership program", May 3, 2019, <https://www.vox.com/recode/2019/5/3/18511544/amazon-prime-oral-history-jeff-bezos-one-day-shipping>

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

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

Activity 6.2

The Commerce Bank, a leading bank in the US, runs a "kill a stupid rule" program in which employees are encouraged to find ways to enhance customer service. The Bank rewards employees for identifying stupid rules that annoy or disturb customers and suggesting alternative rules or policies. Many companies solicit suggestions and feedback from employees regarding the improvement or changes in services and service delivery processes. What are the possible reasons for such communication programs?

Answer:

6.9 Definitions of Quality and its Significance

Let us first observe some of the definitions given by experts in the field.

According to Philip B. Crosby, "Quality is conformance to requirements."

According to Parasuraman and Berry, "Quality is exceeding what customers expect from the service."

According to Garvin, quality can be defined from different perspectives – user-based, product-based, manufacturing-based, value-based and transcendent view.

User-based approach: This approach suggests that quality should be defined from the customer’s perspective. A service offering that meets the customer's needs and wants to his/her complete satisfaction is quality service. This approach also recognizes that different customers have different needs, because of which it becomes difficult for the service provider to satisfy every customer’s needs. For example, a supermarket packs the items bought by a customer and arranges for it to be delivered to his/her car. One customer may consider this quality service but another may not because he/she expects a door-delivery service.

Product-based approach: This approach suggests that the service offered by an organization falls short of the quality standards only when a certain attribute or aspect of service is left out or distorted. For example, if a customer comments that the quality of service offered by a hotel is poor, the approach assumes that either the food was not tasty, the service personnel were not customer-oriented or that the ambience was not good. It assumes that service quality can be well defined and established, and does not vary from person to person.

Operations-based approach: This approach suggests that the quality of a service depends on the efficiency of the operations involved in service design and delivery. It emphasizes cost effectiveness and productivity rather than customer needs and preferences. For example, a fast food outlet needs to deliver food to the customer without any delay. If the outlet fails to meet the quality standards, this approach assumes it is due to a flaw in the operations involved.

Value-based approach: This approach seeks to define quality as the value offered in return for the price paid by the customer. In other words, it suggests that the higher the price charged from the customer, the more should be the benefits offered by the service provider. For example, the quality of service offered by a five-star hotel should be higher than that offered by an ordinary hotel, as the customer charges are comparatively higher.

Example: Value Based Perspective of Quality at Slice

Slice, a US-based insurance company, offered insurance to a new group - people who rent their homes as vacation properties, and provide niche service that meets their (lessor) exact needs. One of its customers Tony from Wisconsin said, “Easy to use and to understand. The price per day is well worth the value and peace of mind it provides.” The example showed quality of service from user-based and value-based perspectives.

For details, check out: “About Us”, <https://slice.is/homeshare/> May 2022 (accessed on 16/5/22)

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Transcendent view of quality: This approach suggests that a person can assess the quality of a service accurately only when he/she is exposed to it repeatedly. For example, a customer may like the service offered by a particular hotel in a city better than that of any other hotel. According to this approach, he/she would have arrived at this decision only after repeated exposure to the service. This approach suggests that consistency in maintaining quality standards is important.

Though the definitions of 'Quality' vary greatly, everyone accepts that it is a key determinant of the success of an organization.

Following are some of the reasons why quality is significant for the success of a service organization:

To win credibility and obtain repeat customers: If an organization offers quality service consistently, it enjoys repeat business, that is, customers visit it repeatedly. Because customers obtain the desired service and are happy with it, the chances of their moving to a different organization are minimized. They may even refer it to their friends and relatives and provide positive word-of-mouth publicity to the quality service offered by the organization. Thus, the organization succeeds in attracting new customers as well.

To charge premium price: When an organization offers superior quality service compared to its competitors, customers who value quality will always prefer this organization to other players in the market. Therefore, the organization will be in a position to charge a premium price from customers. However, organizations competing on the quality aspect need to continuously improve and offer better services so that they always set themselves above the competitors and win the loyalty of customers.

Check Your Progress - 1

1. In which of the following surveys, does a service provider attempt to take the opinion of existing customers, lost customers, and potential customers, about the service provided?
 - a. Post-transactional surveys
 - b. Inquiry surveys
 - c. Employee surveys
 - d. Total market surveys
 - e. Consumer survey
2. Which of the following statement is not true about post-transactional surveys?
 - a. These surveys involve getting feedback from the customers immediately after the service is provided to them
 - b. The feedback is used to evaluate the performance of their frontline employees

- c. These surveys enable the service provider to understand customer expectations
 - d. These surveys help understand the latent demand for the services provided by the firm
 - e. Such a survey provides insights to improve customer service
3. Which of the following stages in the market research process involves the use of statistical techniques like correlation, regression, factor analysis, cluster analysis, and analysis of variance?
- a. Developing a services measurement strategy
 - b. Implementing the research program
 - c. Collecting and tabulating data
 - d. Interpreting and analyzing findings
 - e. Choosing the appropriate sampling method
4. Which of the following statement does not hold true regarding the problem definition stage of the market research process?
- a. A problem statement should be general as it can help in easy analysis and interpretation
 - b. The service provider intending to find a solution for a problem at hand through market research should define the problem accurately
 - c. The problem should not be too concise as it might lead to missing out on relevant and vital information
 - d. The problem statement should help frame research questions
 - e. The findings of the study must provide answers to the problem statement
5. Which of the following approaches to quality suggests that the service offered by an organization falls short of the quality standards only when a certain attribute or aspect of service is left out or distorted?
- a. User-based approach
 - b. Product-based approach
 - c. Value-based approach
 - d. Transcendent view of quality
 - e. Transient view of quality

6.10 Measuring Service Quality

The intangible and perishable nature of services makes it difficult for organizations to measure their quality, identify the loopholes and take necessary steps to improve the quality. Service organizations therefore evaluate certain components of a service to determine its quality. According to Gronroos, any service has two important components – functional and technical.

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Functional – This component involves interaction between the customer and the service personnel. For example, when a customer visits a hotel, the warmth at the reception, the promptness in check-in and the responsiveness of room service, all comprise the functional component of service.

Technical – This component refers to the output of the service operation. For example, if a flight reaches its destination exactly on time, the airlines is said to have delivered quality service with respect to the technical component. The technical component of service is easier to evaluate than the functional component.

According to Berry and Parasuraman, service quality is determined by customers using various criteria like credibility, security, access, communication, tangibles, responsiveness, competence, reliability, etc. The authors identify similarities among some of these criteria and therefore, consolidate them into five dimensions – Tangibles, Reliability, Responsiveness, Assurance and Empathy.

Tangibles: Service is intangible to customers. However, they assess the service by the equipment used to provide the service, the premises within which the service is offered and the employees who provide the service. Therefore, service providers need to ensure that they provide the right ambience and infrastructure to the customers and that their smart and pleasant employees offer high quality service. Managing tangibles like these enables organizations to make a positive impression on not only existing customers, but also on prospective and first-time customers.

Reliability: The service offered by an organization needs to meet the expectations of customers consistently. It is only then that a customer considers the service reliable and the organization dependable. Services should be tested for their consistency before they are launched. They should be monitored closely after their launch and the management should take immediate steps if any unexpected service failures are observed. In addition, the organization should provide suitable infrastructure for error-free services. For example, there should be proper communication systems in place and the employees should be trained in technical skills and service skills to provide high quality service.

Responsiveness: Service personnel should be prompt in attending to customers and serving their requirements. The customers should perceive them to be enthusiastic and responsive while serving them. The personnel should be especially attentive during problem situations where the customer has some complaints with the service. Employees should be empowered by the management to do all that they can to help a customer in trouble. Employees who work with commitment and customer orientation should be rewarded to encourage similar behavior among all the employees.

Assurance: Service personnel should have a thorough knowledge of the service they are providing to the customers. For example, a sales executive selling mutual funds should have complete knowledge of the expected returns and the tax implications of the investment. He/she should be able to provide strong and timely advice to his/her customers. His/her knowledge and his/her confidence should assure the customers that the company's service is dependable and trustworthy.

Empathy: The service personnel of an organization should be easily accessible and open to communication. They should empathize with customers who report problems and work quickly to resolve them. For example, when a customer calls up a bank complaining that he/she has a problem with the balance amount and needs to get it resolved immediately, the customer care executive on the phone should understand the problem, ask relevant questions and assure the customer of immediate action. He/she should also ensure that the problem is resolved at the earliest. Service personnel should consider customer complaints as an opportunity to interact with the customers, understand their needs and improve the service offering.

Example: Service Quality Issues: SAVIOR and Royal Cancer Hospital

SAVIOR was India's most widely used biometric, fingerprint, smartcard-based reader for time attendance, finger print identity, access control in offices and schools. The company was based at Delhi and had a pan India network. The employees of any organization punch their finger at the time of entrance and at the time of leaving the organization and the attendance is recorded in the software. Organizations can see it anytime or take a printout of collective attendance of the employees. At Royal Cancer Hospital, Kanpur, SAVIOR attendance machine was installed for over two years. Whenever the HR of the Hospital took out the collective attendance of all 150 employees, attendance of few employees was always incorrect. In spite of repeated reminders on mail and telephonically, SAVIOR did not send its representatives or engineers to Royal Cancer Hospital on time. The hospital was unable to take out the correct attendance report even once in the past two years. SAVIOR did not provide timely assistance of services to the Royal Cancer Hospital Kanpur.

For details, check out: compiled from Royal Cancer Hospital Website, May 2022, <https://www.rgcirc.org/> (accessed on 16/5/22)

Activity 6.3

It is normally very difficult for service organizations to measure the quality of their services owing to their intangible and perishable nature. Organizations therefore try to assess and evaluate certain components of a service to

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determine its quality. What are the essential components that companies need to assess for measuring the service quality?

Answer:

6.11 Service Quality Gap Model

Some service providers believe that they offer the best possible service to their customers. However, quite often the service falls far short of customer expectations. There is a gap between what the customer expects and what the organization offers them. This is called *customer gap*. There can be different reasons for this gap. These are called the *provider gaps* by Zeithaml, Parasuraman and Berry. These gaps need to be closed to close the customer gap and improve the service to match customer expectations.

Some of the reasons for this gap can be -

- Failure to understand customer expectations
- Failure to design the right service
- Not setting and communicating the right service standards to employees and intermediaries
- Failure to deliver the service standards to customers
- Failure to take customer feedback and review the service continuously

Failure to understand customer expectations: The quality of decisions made by the management in service organizations often depends on the quantity and quality of information they have about the customers. Decisions taken without considering the needs and preferences of customers, prove to be ineffective. The management may fail to prioritize its projects, fail to provide supplementary services valued by customers and offer services that are not required by them. This would simply add to the costs of the organization without awarding any benefits.

Managements fail to have information about customers because they are too engrossed in their managerial responsibilities and fail to interact with the customers. However, the front-line employees are in continuous contact with customers and the management can interact with these employees to obtain the desired information. Efforts should be made by service organizations to minimize the number of layers between the top management and front-line personnel so that communication between them is easier and information is not lost while passing through different hierarchical levels.

Further, the management should conduct market research and attempt to collect more information related to customers' opinions about the quality of service and their expectations from the service provider. Various techniques like focus groups, brain-storming, and customer surveys can be used to collect the information. Information so collected should be used effectively to improve the service quality and to meet customers' expectations.

The management should also use the information about customers to build and develop relations with them. For example, greeting regular customers on special occasions like their birthday and wedding anniversary helps in enhancing and maintaining relationships. Information should be collected on the customer buying patterns too and the database should be regularly updated. Availability of the latest information enables the management to know the changes in customer expectations and reduce the customer gap.

Failure to design the right service: Organizations which do not have service designs that meet customer expectations, are bound to lose out to competitors. The service design of an organization should take into account not only the current requirements of customers, but also their changing buying patterns. This helps the organization be proactive in its approach and capture a good market share by adding to the customer base. For example, cellular service companies that added the SMS (Short Messaging System) facility early to their service package succeeded in attracting customers. A new service offer from Hutch helps the customer check his/her outlook express mail immediately on his/her cell phone. This can be very useful for corporate travelers and might soon attract some new customers.

When companies fail to foresee customer needs and their changing preferences, they fail to design services that suit their needs. As a result, they fail to satisfy the customer and so lose the market to proactive competitors. When more and more service providers in the mobile industry start offering the mail service discussed above, any company that does not offer it will be perceived as falling short of the service quality expected by customers.

Not setting and communicating the right service standards to employees and intermediaries: If an organization does not have any set service standards, employees do not know whether they are doing their job right while serving the customer. Without any standardized procedure or goals, they will do whatever they think is right in delivering the service. Sometimes, however, even if an organization has established standards, it fails to satisfy the customers. Either the standards might not be good enough to satisfy and attract customers or the employees and the intermediaries are not aware of these standards. When the standards are not communicated properly to the service personnel or the intermediaries, they fall short of customers' expectations, leading to their dissatisfaction.

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It has, therefore, become imperative for service organizations to establish standards that actually meet the expectations of customers. In addition, the standards should be communicated to intermediaries and employees at all levels and they should be encouraged to maintain them. The standards should be complete, clear and concise. For example, a service standard that says, “a customer has to be attended to at the earliest” is inadequate when compared to “a customer has to be attended to within 30 seconds of entering the premises.” It is not only the employees of the organization, but also the intermediaries like agents and brokers who need to be aware of the service standards and their significance.

Failure in delivering the service standards to customers: Sometimes, in spite of designing a good service and setting service standards, a service provider might fail to deliver the promised quality service to customers. The reasons for such a failure can be many. One reason could be operational problems like technological or logistics problems. For example, a courier service provider promises that the consignment will reach its destination within 24 hours. However, due to bad weather, the flights are cancelled and the courier is delayed. This might annoy the consumer. Even sudden changes in the demand-supply balance might affect the quality of customer service.

In some cases, in his/her eagerness to sell the service, a salesperson may promise something to the customer that the service offering does not include. For example, he/she might not reveal the inherent risks in making a financial investment and promises the customer high returns. However, the customer who suffers losses by purchasing the investment package might not realize that it has happened due to the inherent risk and may blame the organization. The management should, therefore, avoid and discourage strategies that make exaggerated promises. Sometimes, the customer might mislead the service provider by providing incorrect or incomplete information, and this might result in shoddy service delivery.

Sometimes, lack of communication between various departments also leads to poor quality service. For example, the marketing department may promise a customer that the service will be delivered on the same day. But the customer service department may have some problems and declare that it cannot deliver the service before three days. Proper communication and co-ordination between the various departments will help the organization deliver better service.

Failure to take customer feedback and review the service continuously: A service company which enjoys a large dedicated customer base today, may lose out to competitors if it fails to continually upgrade itself. The marketer should keep track of the changes in the market environment, the customer buying patterns and his changing needs to redesign his/her service from time to time. When a marketer relaxes and becomes complacent, the competitors soon make

new offerings and attract the customers. Therefore, it becomes imperative for a marketer to keep track of customers' changing needs and requirements and modify his service offering accordingly.

When BSNL realized that the fixed line service was getting outdated and that most private telecom players were venturing into the cellular service business, it too started offering cellular services to its customers.

Example: Service Quality Gap at Uber Eats India

After burning over \$3 billion, Uber Eats India who believed that customers prefer a delivery service which provides a better user experience and on time delivery, realized that food delivery was not profitable and the customer was loyal only to discounts. Finally, in 2020, it sold its operations to Zomato, in exchange for 10% stake worth of \$300-\$350 million. The mentioned case reflected the service gap and seeks the marketers' attention, to understand the customer expectations.

For details, check out: "Uber Eats' India exit sums up the struggles of every foodtech company", January 21, 2020, <https://www.livemint.com/companies/start-ups/uber-eats-india-exit-sums-up-the-struggles-of-every-food-tech-company-11579629307076.html> (accessed on 16/5/22)

6.12 Dimensions of Service Quality – SERVQUAL Model based on RATER Scale

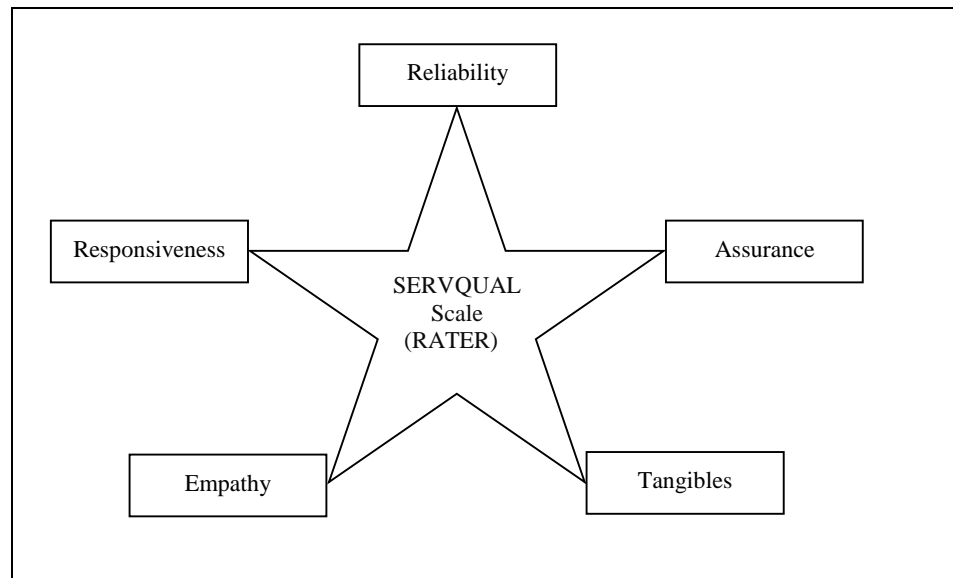
The 'Servqual' service quality model was developed in the year 1988 by Len Berry, Parasuraman and Valarie Zeithaml, as a tool to measure service quality. All service providers know that service quality and customer satisfaction are important factors that they must manage in order to remain relevant in business. Therefore, they need to measure these constructs and understand how consumers perceive the firm's quality of service in comparison with quality expectations. If the customers' perceptions of firm's service quality are higher than their own quality expectations, then the given firm's quality of service can be rated 'good' and 'poor' if the vice versa is true. The five Servqual model measures the service quality and expectations of service level by customers. The SERVQUAL model is developed based on five-dimensional RATER scale representing the first letter of **R**esponsiveness, **A**ssurance, **E**mpathy, **T**angibles and **R**eliability as follows (Refer Figure 6.1).

1. **Reliability:** Honour commitments and walk-the-talk.
2. **Assurance:** The trust that customers are willing to repose on the firm because of the knowledge level and expertise of the employees of the firm.
3. **Tangibles:** The tangible aspects of service like physical facilities, equipment, employees and personnel.

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4. **Empathy:** How caring the firm is towards its customers and the individualized attention it provides to its customers.
5. **Responsiveness of service:** Willingness to help customer and provide prompt service.

Figure 6.1: Servqual Scale (RATER)



Source: JochenWritz and Christopher Lovelock, "Services Marketing: People, Technology, Strategy, 2016

The authors conducted further research to affirm the weightage that needs to be assigned to these factors included in the Servqual tool. Accordingly, reliability was given the highest weightage (32%) followed by responsiveness (22%), assurance (19%), Empathy (16%) and tangibles (11%).

The importance assigned to the factors thus makes it amply clear that it is three times more important to be reliable. While tangibles like equipment, neat uniforms and other physical facilities create impressions, it is three times more important to be reliable. Thus, completion of work orders on time and meeting commitments and delivering promises, matter more than anything else. Responsiveness or quick responses to customer complaints matter too; because it determines more than one fifth of the quality assessment of customers. Service providers are expected to have expertise and their behavior must instill confidence in customers (Assurance). Care about customers and proof of tangibles are important as well, though these qualities cannot compensate for the absence of the first three.

In addition to being a measurement tool, Servqual was also envisaged to be a management model. Servqual helps managers to identify service gaps and take corrective action.

Example: Service Quality at Yashoda Hospitals

Yashoda Hospitals, a renowned hospital in Hyderabad, India, offered minimally invasive- and robotic-assisted surgeries, for the treatment of cancer and other conditions. It was the 1st team in Telangana and AP, performing the largest number of successful robotic surgeries. The example reflected tangibility, one of the dimensions of service quality.

For details, check out: Balasubramoniam K R, “VATS and robotic surgery for lung cancer – Frequently asked questions”, July 16, 2019, <https://www.yashodahospitals.com/blog/vats-and-robotic-surgery-faqs/> (accessed on 16/5/22)

6.13 Service Quality Standards

Organizations should establish specific service standards so that all the employees strive to maintain them and customers experience excellent service. Standards can be set with respect to any aspect of the service that is of value to customers. Some organizations may set broader service standards that benefit other stakeholders like investors too. For example, Reliance which offers quality service to customers by supplying them with uninterrupted power has also set certain standards to benefit its investors.

The service standards should be in alignment with the goals of the organization. For example, when an organization aims to attract a varied customer base, it cannot set customized service standards. The management should involve employees actively in setting the service standards. As the employees themselves are involved in formulating standards, they are more likely to be committed to maintaining them. Once the management discusses and finalizes the set of standards, they should communicate the standards to all the employees and even the intermediaries. They should display them at various places (like conference hall, work area, water coolers, canteen, etc.) throughout the organization so as to constantly remind the employees of their responsibilities. These standards should be communicated in a different form to the customers as well, so that they will know what to expect from the service provider.

The standards should be one of the best in the industry, but achievable within the organization's means. For example, if a courier service provider sets a standard of delivery within 48 hours, he/she should have the right infrastructure and logistics support to maintain the standard. If he does not have the right network in say, the western part of the country and, therefore, fails to maintain the standard, customers would perceive it as quality failure. So, before setting the standards, a service provider should consider the practicality. Moreover, once standards are set, the management should ensure that there are no deviations

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from it. The service delivered by employees should exceed the standards but should never fall below them. The top management should extend the required support so that employees can achieve such excellence. In addition, the management should consider the costs involved in delivering the service. If the cost of achieving a certain standard is higher than the maximum price that customers will be willing to pay, it is better for the service provider not to aim for such high standards.

Example: Establishing Service Quality Standards at Apollo Hospitals through Microsoft's AI Powered Tool

Given the high prevalence of Cardiovascular diseases (CVDs) affecting Indians, Apollo Hospitals and Microsoft India launched the first ever AI-powered CVD Risk Score, designed specifically to predict the risk of CVD in the Indian population. Apollo Hospitals and Microsoft established the service standard (AI-powered CVD Risk Score) in alignment with their goals.

For details, check out: "Microsoft and Apollo Hospitals introduce AI powered Cardiovascular Disease risk score", July 18, 2020, <https://medgatetoday.com/microsoft-and-apollo-hospitals-introduce-ai-powered-cardiovascular-disease-risk-score/> (accessed on 16/5/22)

6.14 Benchmarking

According to David T. Kearns, CEO of Xerox Corporation, benchmarking is "the continuous process of measuring products, services and practices against the toughest competition or those companies recognized as industrial leaders." John Beckford of Beckford Consulting defines benchmarking as given below:

"Benchmarking is a process of comparison between the performance characteristics of separate, often competing, organizations intended to enable each participant to improve its own performance in the marketplace."

In the process of benchmarking, a department or unit of an organization may compare itself with another department or unit of the organization or one organization may compare itself with another organization that has achieved excellence. The comparison can be in specific areas like customer service, employee retention, productivity, operational efficiency, etc. The company does the comparison, strives to improve itself in the specific area to meet or beat the benchmark company. Sometimes, all the organizations within an industry in a particular country may compare their processes with that of another country and strive to achieve excellence in service quality. Benchmarking enables organizations to understand the factors that led to the success of their competitors stimulate their own business by creating a similar environment at their workplace and thereby achieve success.

The process of benchmarking involves five major steps. First, the organization has to identify the critical business processes or areas that need to be benchmarked for improvement. Then it has to choose companies that have excelled in those areas/processes for benchmarking. In the third step, the organization has to determine the methods to be used for data collection from the company used for benchmarking. In the fourth step, the management should analyze the differences between the processes in the two companies to identify its areas for improvement. That is, the performance gap should be identified. In the fifth step, the management should introduce the necessary changes in the organization to remove the performance gap and improve the service quality. For example, say a fast food outlet wants to improve its delivery time. Its first step would be to identify the process, which would help it speed up delivery. Say, it identifies logistics as the business area. The next step would be to identify the company to benchmark against and say it identifies McDonald's. The third step would be to collect data from the company and it does this by talking to the management of McDonald's directly. In the fourth step, the company compares the processes in the two outlets and identifies the areas for improvement in the kitchen and at the counter. As the last step, it implements the necessary changes to improve its processes.

Benchmarking can be of three types – internal, external and generic. In internal benchmarking, the functions or processes of one department or unit are compared with those of another department or unit of the same organization. In external benchmarking, the function/process of one organization is compared with that of another organization in the same industry. In generic benchmarking, the function/process of an organization is compared with that in another organization in a different industry. For example, the logistics of an online book store (say, amazon.com) may be compared with that of a transportation company (say, FedEx).

Some organizations are content with their achievements (the amount of market share, profits, etc.). They believe that their capability is limited and that is all they can achieve. They fail to improve their performance because they do not even know that such an improvement can be made. Benchmarking enables the management realize that competitors are able to perform better on the strength of better processes. The management can then improve its own processes to meet or even exceed the performance standards of competitors. However, this requires the employees of the organization to stretch themselves to achieve those high standards. They need to be motivated to work harder for the survival and success of the organization. In addition, employees need to be trained to improve their skills to participate in benchmarking and take the service quality to the desired level.

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Example: Benchmarking Study at Southwest Airlines

Southwest Airlines continuously analyzed the processes, approaches, and the speed of automobile racing pit crews to gain ideas for improving their airplane turnaround time at the gate. The outcome of this benchmarking study was reported to have helped Southwest reconfigure its gate maintenance, cleaning, and customer loading operations, and to have saved the company millions of dollars per year.

For details, check out: “The Importance of Benchmarking in Improving Business Operations”, July 26, 2019, <https://www.thebalancecareers.com/overview-and-examples-of-benchmarking-in-business-2275114> (accessed on 16/5/22)

6.15 Total Quality Management

Total Quality Management (TQM) is a systematic approach in which an organization seeks to continuously improve its processes and enhance its service quality to both internal and external customers, and suppliers. According to Ross, TQM is “the integration of all functions and processes within an organization in order to achieve continuous improvement of the quality of goods and services. The goal is customer satisfaction.” TQM requires organizations to focus not just on one particular aspect of their business, but on all those activities that will have a bearing on the quality of service delivered to the customer. By applying TQM, organizations can achieve zero defections in all their activities and processes and enhance customer satisfaction. One of the TQM techniques applicable to service processes is *poka yoke*. It is a mechanism, that seeks to prevent mistakes from taking place, and in case they could not be prevented, it seeks to identify the mistakes committed in a process and rectify them before the customer detects them and complains. *Poka yoke* recognizes that people tend to commit mistakes when they repeatedly perform the same process/activity. Therefore, it attempts to re-engineer the process in such a way that the person does not get an opportunity to commit a mistake. *Poka yoke* was earlier used only in manufacturing processes. However, it can be easily applied to service processes as well. For example, suppose the receptionist at an academic institute that has various branches spread across the city, often makes a mistake in guiding visitors, students and parents correctly. By keeping a route map at the reception that gives directions to reach the different branches, the receptionist is less likely to make mistakes. Similarly, if the administration assistant at a sales office is provided with a list of mobile numbers of all the sales representatives, she/he can give them the messages given by the boss or customers immediately.

6.16 Strategies for Improving Service Quality

It is not too difficult for companies to improve service quality. What is required is the right strategy to do it and the commitment by all members of the

organization. The following are some of the strategies that should be followed by service organizations to enhance the quality of service offered to customers:

- A service provider should aim at achieving zero-defects or error-free service. This can be achieved by having a management that believes in 100% perfection, providing the necessary infrastructure that facilitates error-free service, and by testing and re-testing service processes at various stages to eliminate any loopholes. This will also help them improve continuously to set and achieve new standards.
- Internal communication promotes better understanding among employees of each other's tasks and responsibilities, and the difficulties involved, and enhances co-operation and coordination which eventually results in better service to customers. Also, organizations should be equipped with modern training equipment and techniques to simulate real work environment and train employees to deliver quality service.
- Service providers should always test a service prior to launching it in the market- place. If possible, a new service should be introduced in a few select places for test-marketing. This will allow some time for the management to obtain customer feedback. In case customers report problems, the management can take corrective action. Another approach to prevent problems is to develop a service blueprint to identify all the activities that lead to final service delivery, identify problem areas and train employees to handle the problems. Service providers should also test the service after launching it. Setting higher service quality goals and striving to achieve them should be an on-going process as any complacency will render the service outdated in a competitive market.
- Sometimes, service providers fail to deliver the service despite all the precautions they take to prevent a failure. At such times, customers' perception of service quality depends on the service provider's ability to resolve the problem immediately. To enable effective service recovery and regain customers' confidence, service providers should train employees in recovery techniques and empower them to resolve the problem immediately. Also, they should reward employees who take the initiative and resolve the problem quickly.
- The management should extend support to employees by setting up the necessary information system and other infrastructure that enables employees to identify and rectify errors with ease. Further, organizations should encourage teamwork among employees. By having an effective service recovery system in place, service providers can assure customers that they care for them.
- Trained employees will be prepared to face problems and, therefore can resolve them as soon as they occur. Sometimes even before the customer can perceive the error.

Example: Improving Service Quality through differentiation at Sneaker Brand

Sneaker brand APL's first store in LA was defined by its long narrow space that is both dramatic and serene. As the store was located in the 'City of Angels', the founders wanted to conjure up an image of 'heaven'. The high ceilings, narrow width and runway-like depth were immediately noticeable in this extraordinary store. Whilst the space itself was incredibly dramatic, the overall aesthetic was not in competition with the sneakers on display and they still manage to be the star of the show. It used its service premises to attract its target customers.

For details, check out: "50 of the World's Best Retail Displays", February 21, 2022, <https://www.insider-trends.com/50-of-the-worlds-best-retail-displays/> (accessed on 16/5/22)

6.17 Monitoring Service Quality

Apart from using quality management techniques and adopting service quality improvement strategies, organizations should continually monitor their service quality. This will help the management ensure that customers receive the quality of service that their organization intends to deliver. The management can use the following methods to monitor service quality:

Conduct customer surveys: Service organizations should regularly conduct customer surveys to know whether the customers have any issues with the service offered or with the service personnel. Questionnaires should be given to customers to elicit their opinions and rate the quality of service offered by the organization. Also, efforts should be made to explore the factors leading to any dissatisfaction. Mystery shoppers, researchers who visit service outlets posing as customers, may also be used to identify problems with service quality. These researchers keenly observe how the service is being delivered and how the customers respond to the service. They identify the deficiencies, if any, in the service processes. The management can then take necessary action to eliminate the deficiencies.

Example: Customer Surveys at Starbucks to Improve Service Quality

Starbucks used coffee from all over the world, from East Africa, Pacific Rim, and Latin America. In May 2022, Starbucks initiated an online customer experience survey at www.Mystarbucksvisit.com. It provided customers across the world, to share information on their preferences and spending related to coffee and food. The company used this information to increase effort to improve the quality of services provided.

For details, check out: "Mystarbucksvisit.com – Starbucks Customer Experience Survey", May 20, 2022, <https://www.customer-survey.com/www-mystarbucksvisit-com/> (accessed on 16/5/22)

Monitor customer feedback: Managers should give special attention to the feedback given by customers in the form of complaints or suggestions or even compliments. The management should try to find out the root causes of problems in case of complaints, and prevent them from recurring. If the customer makes some suggestions, the management should consider them, discuss them with employees for their feasibility and applicability, and implement the ones that are valuable and practicable. If customers give compliments to service personnel, then management should encourage the concerned employees to continue to offer quality service by rewarding them.

Review service blueprints, problem-tracking system: The management should constantly review the service blueprints and identify any problems that exist. If necessary, the management should change the monitoring procedures and problem-tracking procedures. Service blueprinting is the process of representing the entire service process in the form of a picture/diagram so as to ensure that all the steps in a service process are covered. As the service blueprint provides information on each single event and activity involved in the service, a service manager can test its effectiveness on paper. He/she can modify the service process before applying the usual testing procedures (like test marketing, etc.).

Check Your Progress - 2

6. Which of the following statements is not true with regard to the components of quality?
 - a. The functional component refers to the output of the service operation
 - b. The technical component involves interaction between the customer and the service personnel
 - c. The technical component of service is easier to evaluate than the functional component
 - d. To measure the quality of service offered, service organizations have to measure both the technical and functional components
 - e. Quality management components aim to consistently meet customer expectations
7. Given below are the definitions of gaps that are reasons for differences between customer expectations and actual service delivered. Which of the following options defines knowledge gap?
 - a. The Gap between customer expectations and customer perceptions
 - b. The Gap between management perception and service quality specification
 - c. The Gap between service quality specification and service delivery
 - d. The Gap between service delivery and external communication
 - e. The Gap between customer expectation and management expectation

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8. Which of the following can be defined as a process of comparison between the performance characteristics of individual, but competing organizations?
 - a. Benchmarking
 - b. Zone of tolerance
 - c. Service blueprinting
 - d. Total quality management
 - e. Service measurement
 9. Which of the following is a systematic approach of enhancing service quality of internal and external customers, through which an organization continuously improves its processes?
 - a. Poke yoke
 - b. Yield management
 - c. Benchmarking
 - d. Service quality management
 - e. Total quality management
 10. Which of the following is the process of representing the entire service process in the form of a picture/diagram so as to ensure that all the steps in a service process are covered?
 - a. Zone of tolerance
 - b. Yield management
 - c. Service blueprinting
 - d. Attribute positioning
 - e. Service quality measurement
 11. Which of the following strategies would not be advisable for service organizations to follow and enhance the quality of service offered to customers?
 - a. Service providers should always test a service prior to launching it in the market-place. A new service should be introduced in all the places for test-marketing
 - b. Service providers should train employees in recovery techniques and empower them to resolve the problem immediately
 - c. Service providers should also reward employees who take the initiative and resolve the problem quickly
 - d. The management should extend support to employees by setting up the necessary information system and other infrastructure that enable employees to identify and rectify errors with ease
 - e. Organizations should be equipped with modern training equipment and techniques to simulate the real work environment and train employees to deliver quality service
-

Activity 6.4

Shop n Style, a popular South Indian departmental store chain, has roped in Retail Prowess, a leading retail consulting firm, to fine-tune its service delivery process. Retail Prowess has developed a service quality program that specified processes and service quality standards to be adopted at each of its departmental stores. How can Shop n Style maintain service quality in all its stores spread across South India?

Answer:

6.18 Summary

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

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- Unless the information collected from the market research is applied to solve problems or for other intended purposes, the time and effort spent on research will be futile.
- As the consumer market is highly volatile, the information gathered at one time may become obsolete within a short period of time. So, the management needs to apply the results of marketing research immediately.
- Upward communication plays a very important role in marketing research. It includes communication between the management and the employees, and the management and the customers of an organization.
- There are different approaches to upward communication like executive visits to customers, the listening approach of the management, research on internal, intermediate, and external customers and employee suggestions.
- Many service organizations across the world have benefited profoundly by listening to customers and employees.
- According to Philip B. Crosby, “Quality is conformance to requirements.” However, service organizations should strive to enhance the quality of their service to exceed customers' expectations, so as to stay ahead of competitors.
- Quality is also defined from different perspectives like user-based approach, product-based approach, operations-based approach, value-based approach, and the transcendent view.
- Improving service quality enables organizations to win credibility, enhance customer satisfaction, obtain repeat customers, and even charge a premium price.
- To measure the quality of service offered, service organizations have to measure both the technical and functional components of the service.
- According to a research study done by Zeithaml, Berry, and Parasuraman, five important dimensions of service (as viewed by customers) that need to be evaluated are tangibles, reliability, responsiveness, assurance, and empathy.
- There can be many reasons for the differences that occur between the quality expected by the customer, and the quality delivered by the organization.
- Organizations need to establish certain service standards so that all the employees, as a team, strive to achieve them, and offer superior quality service to customers.
- Service organizations can use techniques like TQM and benchmarking to improve their service quality.
- Striving to offer reliable service and implementing effective service recovery methods are some of the strategies used by service organizations to improve service quality.

- Apart from using quality management techniques and strategies, a service organization should continually monitor its service quality to ensure that customers consistently receive the level of quality service that they expect from the organization.

6.19 Glossary

Benchmarking: Benchmarking is a process of comparison between the performance characteristics of individual but, competing organizations/ Benchmarking enables participants to improve its own performance in the marketplace (According to John Beckford).

Customer and Provider Gaps: Quite often the service falls far short of customer expectations. Hence, there is a gap between what the customer expects and what the organization offers them. This is called customer gap. There can be different reasons for this gap, and these are called the provider gaps.

Employee Surveys: The front-line employees who are involved in direct customer interaction and customer service are surveyed as they will be aware of the various obstacles that prevent them from delivering the best service the way customers want it. These surveys will reveal the loopholes in the system and enable the management to improve the quality of service by plugging the gaps.

External Benchmarking: In external benchmarking the function/process of one organization is compared with the performance characteristics of another organization in the same industry.

Functional (Service Component): This component involves an interaction between the customer and the service personnel.

Generic Benchmarking: In generic benchmarking the function/process of an organization is compared with the performance characteristics in another organization in a different industry.

Intermediate Customers: Intermediate customers are people who act as a bridge between the customers and the service providers.

Internal Benchmarking: In internal benchmarking the functions or processes of one department or unit are compared with performance characteristics of another department or unit of the same organization.

Internal Customers: Employees are the internal customers of an organization and constitute its internal market.

Operations-Based Approach: This approach suggests that the quality of a service depends on the efficiency of the operations involved in service design and delivery. It emphasizes cost-effectiveness and productivity rather than customer needs and preferences.

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Poke Yoke: It is one of the TQM techniques applicable to service processes. It is a mechanism that seeks to prevent mistakes from taking place; in case, they could not be prevented, it seeks to identify the mistakes committed in a process and rectify them before the customer detects them and complains.

Post-Transactional Surveys: In post-transactional surveys, service firms attempt to get feedback from the customer immediately after the service is provided to him/her.

Product-Based Approach: This approach suggests that the service offered by an organization falls short of the quality standards only when a certain attribute or aspect of service is left out or distorted.

Technical (Service Component): This component refers to the output of the service operation.

Total Market Survey: In total market survey, firms attempt to take the opinion of all the customers in the market, including existing customers, lost customers, and potential customers, about their services.

Total Quality Management: It is a systematic approach in which an organization seeks to continuously improve its processes and enhance its service quality to both internal and external customers and suppliers.

Transcendent View of Quality: This approach suggests that a person can assess the quality of a service accurately only when he/she is exposed to it repeatedly.

User-Based Approach: User-based-quality-review-approach suggests that quality should be defined from the customer's perspective. A service offering that meets the customer's needs and wants to his/her complete satisfaction, is quality service.

Value-Based Approach: This approach seeks to define quality as the value offered in return for the price paid by the customer.

6.20 Self-Assessment Test

1. A service provider should conduct market research to reduce the gap between customer expectations and the perceptions of the service provider. Explain this statement by highlighting the use of marketing research in the field of services.
2. A service provider can use many approaches to obtain feedback from the customer and/or employees, and take necessary action to improve its service. Discuss the approaches to service research.
3. Firms need to follow a systematic process of market research in order to obtain meaningful and usable information. Explain the various stages involved in the marketing research process. Discuss the use of information obtained from conducting marketing research.

4. In many organizations, communication flows only from the top to the bottom. How can communication help organizations deliver quality service?
5. It is comparatively easier to ensure quality in products than in services. Define quality and explain its significance for a service organization.
6. The intangible and perishable nature of services makes it difficult for organizations to measure their quality. What are the ways in which service quality can be measured?
7. There can be many reasons for the differences between the quality expected by the customer and the quality delivered by the organization. Describe the service quality gap model.
8. Organizations should establish specific service standards so that all the employees strive to maintain them and customers experience excellent service. Discuss the strategies that service organizations should follow to ensure service quality.
9. “Techniques like TQM and benchmarking can be used by service organizations to improve their service quality.” Substantiate this statement.
10. It is not too difficult for companies to improve service quality. Discuss the strategies that service organizations can follow to enhance the quality of service offered to customers.
11. Apart from using quality management techniques and adopting service quality improvement strategies, organizations should continually monitor their service quality. What are the methods that an organization can use to monitor service quality?

6.21 Suggested Readings / Reference Materials

1. Jochen Wirtz, Christopher H. Lovelock (2021). ‘Services Marketing: People, Technology, Strategy’ (Ninth Edition), World Scientific Publishing Co Inc. (USA).
2. Valarie A. Zeithaml and Mary Jo Bitner (2018). Services Marketing: Integrating Customer focus across the Firm. Seventh edition. New Delhi: McGraw-Hill Education.
3. Dr Ravikumar K (2020). ‘Marketing and Services Management’, Notion Press.
4. Dr. Subramaniam Seshan Iyer (2021). ‘Marketing of Healthcare Services: A reference book’, Notion Press.
5. Dr Manita Matharu, Dr Manish Joshi and Dr P Jagadeesan (January 2022), ‘Service Marketing’, Red'shine Publication Pvt. Ltd.

6.22 Answers to Check Your Progress Questions

1. (d) Total market surveys

In total market surveys, firms attempt to take the opinion of all the customers in the market, including existing customers, lost customers, and potential customers about their services. By interviewing customers who switched to competitors, the firm can get to know the factors that led to their dissatisfaction.

2. (d) These surveys help in understanding the latent demand for the services provided by the firm

All the statements are true regarding post-transactional surveys, except (d), which states that total market survey can identify the latent demand for any service.

3. (d) Interpreting and analyzing findings

After collecting the data from research, it is interpreted and analyzed to arrive at meaningful conclusions. Interpretation and analysis require people who have an in-depth knowledge of not only the subject, but also the requirements of the organization conducting or sponsoring the research study. Various statistical techniques like correlation, regression, factor analysis, cluster analysis, and analysis of variance are used for data analysis depending on the situation and type of data.

4. (a) A problem statement should be too general as it can help in easy analysis and interpretation

Statements (b) and (c) are true regarding the problem definition stage in the market research process. However, statement (a) is false. A problem statement should not be too general as it can lead to excessive and redundant collection of information, posing difficulty in analysis and interpretation.

5. (b) Product-based approach

The product-based approach suggests that the service offered by an organization falls short of the quality standards only when a certain attribute or aspect of service is left out or distorted. The approach assumes that service quality can be well defined and established, and does not vary from person to person.

6. (c) The technical component of service is easier to evaluate than the functional component

According to Gronroos, any service has two important components – functional and technical. The functional component involves an interaction between the customer and the service personnel. The

technical component refers to the output of the service operation. The technical component of service is easier to evaluate than the functional component.

7. (e) The gap between customer expectations and management perception

Failure to understand customer expectations by management leads to knowledge gap. In this case, the top management fails to understand customer expectations. Thus the company's products or services fail to meet customer expectations.

8. (a) Benchmarking

Benchmarking is comparison between the performance characteristics of separate, often competing, organizations. Benchmarking enables participants to improve its own performance in the marketplace.

9. (e) Total Quality Management

Total Quality Management (TQM) is a systematic approach in which an organization seeks to continuously improve its processes and enhance its service quality to both internal and external customers and suppliers. According to Ross, TQM is "the integration of all functions and processes within an organization in order to achieve continuous improvement of the quality of goods and services. The goal is customer satisfaction."

10. (c) Service blueprinting

Service blueprinting is the process of representing the entire service process in the form of a picture/diagram so as to ensure that all the steps in the process are covered. The management should constantly review the service blueprints and identify any problems that exist.

11. (a) Service providers should always test a service prior to launching it in the market-place. A new service should be introduced in all the places for test-marketing

All the options are the strategies to be followed by service organizations to enhance the quality of service offered to customers, except option (a). Service providers should always test a service prior to launching it in the market-place. If possible, a new service should be introduced in a few select places for test-marketing. This will allow some time for the management to obtain customer feedback, and thereby take corrective action.

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