

Services Marketing

Block

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BLOCK 2: STRATEGIC ISSUES IN SERVICES MARKETING

The key issue that service marketers need to address through marketing strategies is, how to 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 service in the minds of the customer. The second block of the course on Services Marketing deals with the strategic issues involved in services marketing. The block contains four units. The first unit discusses market segmentation and targeting. The second unit focuses on positioning and differentiation of services. The third unit deals with managing demand and capacity. The fourth unit deals with role of technology in services.

Segmentation involves division of the market into homogeneous groups based on certain need criteria of customers. Once the market is segmented, the service marketer selects promising market segments to target and reach them through a distinct marketing mix. The seventh unit, *Market Segmentation and Targeting*, defines and introduces market segmentation in services. It discusses the bases for market segmentation, the requirements for effective segmentation, and the process of market segmentation. The unit also discusses market targeting in services. It ends by discussing the concept of mass customization.

Through effective service differentiation, a service marketer endeavors to occupy a clear, distinct and desirable position (Positioning) in the minds of the customer. The eighth unit, *Positioning and Differentiation of Services*, defines and explains the concept of positioning. The unit discusses the various positioning strategies. It describes the role played by the value chain in services, and the concept of differentiation in services. The unit also explains the role of positioning in marketing strategy. The unit concludes with a discussion on the steps involved in developing a positioning strategy.

A service firm is likely to face two challenges in relation to demand and capacity management. Either the demand may be too high subjecting the resources to undue strain, or there can be a lack of demand situation, leading to unused capacity. The ninth unit, *Managing Demand and Capacity*, provides an idea about how to manage demand and capacity in services. It first discusses the concept of demand. The unit also explains the various capacity constraints, and the strategies that can be used to match demand and capacity. It then discusses how to create a demand inventory. Finally, there is a discussion on the concept of yield management and its benefits. The unit also discussed the yield calculation and short comings of yield management.

Leveraging the right and best available technology can help service marketers improve service quality and enhance service experiences of customers. The tenth unit, *Role of Technology in Services*, highlights the role of technology in gaining competitive advantage in service industry. It discusses the concept of business technology strategy and technographic segmentation. The unit also discusses the use of technology for improved customer service. It then discusses the impact of technology in distribution of services and on key industries in services sector. The unit ends with a discussion on how technology sometimes act as a double edged sword along with self-service technologies and their benefits.

Unit 7

Market Segmentation and Targeting

Structure

- 7.1. Introduction
- 7.2. Objectives
- 7.3. Market Segmentation in Services
- 7.4. Bases for Market Segmentation
- 7.5. Requirements for Effective Segmentation
- 7.6. Process of Market Segmentation
- 7.7. Market Targeting in Services
- 7.8. Mass Customization/Individualized Service
- 7.9. Summary
- 7.10. Glossary
- 7.11. Self-Assessment Test
- 7.12. Suggested Readings/Reference Materials
- 7.13. Answers to Check Your Progress Questions

“Market segmentation is a natural result of the vast differences among people.”

- Donald Norman

7.1 Introduction

As quoted aptly, consumers behave differently and have different needs.

In the last unit of the previous block, we discussed various strategies that can be used by firms to effectively listen to their customers. In this unit, we will discuss segmentation of the market and targeting.

Over the years, customers' expectations, needs, and desires have changed substantially. Within markets, customer needs vary. They have different tastes, and hence, desire products with different features and benefits. Customers have a wide array of needs and are no longer satisfied if companies offer a single product or service. For example, a family man looking to buy a motorcycle might pay more attention to features like longevity, sturdiness, and mileage. A college student, on the other hand, might prefer a brand of motorcycle for its style, image, and appearance. This has made it necessary for companies to develop and market products to suit individual needs and preferences. However, every business operates under a set of constraints and it is therefore, not possible for a single

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company to develop products or services to cater to the needs of all the customers in the market. This was what led to the emergence of the concept of market segmentation.

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

This unit will first discuss market segmentation in services, the bases used for segmenting markets, and how to segment the markets effectively. It will then move on to the process of segmenting markets, and how to target the segments that are profitable for the company. Finally, it will discuss the concept of mass customization.

7.2 Objectives

After studying this unit, you should be able to:

- Discuss market segmentation in services
- Recognize the bases for market segmentation
- Identify the requirements for effective segmentation
- Explain the process of market segmentation
- Discuss market targeting in services
- Define mass customization

7.3 Market Segmentation in Services

Earlier, marketers developed homogenous products and services as they wanted to minimize their production and marketing expenditure. They served the customer base with their homogenized products or services and the customers rarely had any issues over this. However, customer expectations changed over time and they started showing their preference for customized products /services that suited them the best. At this juncture, marketers realized that although similarities existed between certain customer groups, the customers differed in terms of age, economic positions, lifestyles, occupations, expectations, etc.

For instance, an airline's customers comprising business travelers, tourists, students, and their needs differed on various fronts like the time factor, the fare, the food served, etc. While the tourists wanted a good deal and a great ambience, businessmen looked for a serene atmosphere and sharp maintenance of schedules.

Offering a single type of service to cater to all their needs would not be a feasible option and would also result in a dissatisfied customer base. This realization paved the way for marketers to define their 'market segment' in the total market.

What constitutes a marketer's 'market segment'? A marketer's 'market segment' consists of his/her existing as well as prospective customers whose needs, desires, and expectations are different from the customers of other segments and match the resource-constraint set of the marketer. The resources and constraints of a marketer define the set of products/services that he/she can market for the consumption of the customers.

Kotler and Armstrong defined a market segment as "a group of consumers who respond in a similar way to a given set of marketing stimuli" and market segmentation as "the process of dividing a market into distinct groups of buyers with different needs, characteristics, or behavior who might require separate products or marketing mixes." As given in the definition, a marketer should identify and select a segment that he/she is confident of serving better than his competitors, given his resources and constraints and thus emerge as a leading player in that segment.

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

The technological developments have now made it possible for the marketers to serve even the smaller segments of the market with very specific needs.

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

7.3.1 Undifferentiated Marketing Approach

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

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A major challenge for companies adopting the undifferentiated marketing approach is how to design and market a single product or service that will satisfy all the consumers.

7.3.2 Differentiated Marketing Approach

The differentiated marketing approach, also known as the product-variety marketing approach, aims at targeting consumers of various segments by offering different products or services for each segment. For example, the airlines from the earlier example may opt to serve the business traveler segment, domestic traveler segment, and international traveler segment, and might design its marketing mix to cater to the needs of the consumers of all the three segments.

A company aims to tap the entire market by serving each segment and thus become a market leader. This approach might prove to be successful if the brand name is well-known in the market and consumers from each segment identify the product or services offered with the brand. The company has to bear the higher costs involved in developing separate marketing mixes for each segment in terms of higher production costs, additional research and development expenditure, engineering expenses, higher market research costs, and higher promotional costs due to specific advertising targeted at each segment.

However, the benefits associated with this approach are numerous as it increases total sales when compared to the undifferentiated marketing approach. It also helps a company gain the overall industry leadership as it caters to different segments of the market. Companies adopting this approach try to satisfy the consumers of each segment by identifying their buying patterns and designing their products or services accordingly. Enhanced customer satisfaction ensures repeat purchases and brand loyalty.

Example: Delta Airlines: Differentiated Marketing Approach

Delta Airlines is tackling the biggest hurdle to players in the aviation industry, differentiation, by creating tools that use customer data. By this it tries to enhance an experience that few high-value customers enjoy. It practices data driven differentiation, so that the flight attendant will be able to greet high-value customers by name, express gratitude for their on-going custom, and bring them a beverage that is already known to be their preferred choice.

For details, check out “How Delta is differentiating for high-value customers”, <https://www.warc.com/newsandopinion/news/how-delta-is-differentiating-for-high-value-customers/en-gb/41601>, January 28, 2019 (accessed on 28/4/2022)

7.3.3 Concentrated Marketing Approach

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

7.4 Bases for Market Segmentation

Markets can be segmented on the basis of demographics, geography, psychographics, and behavioral analyses of customers at large. Let us discuss each of these bases in detail.

7.4.1 Demographic Segmentation

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

Age

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

Sex

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

Size and structure of family

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

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Income

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

Educational level

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

Example: Demographic Segmentation at Starbucks

Starbucks is a global company succeeded by the proper understanding of its customer segments since its inception. Based on demographics, it has two customer segments - High spenders who are affluent or high income people and Urban-ish, people who dwell in urban places.

For details, check out "Customer Segmentation for Starbucks", <https://www.foodnewsnews.com/starbucks/customer-segmentation-for-starbucks/> (accessed on 28/4/22)

7.4.2 Geographic Segmentation

Under geographic segmentation, the entire market can be divided into nations, countries, or states and the global market can be segmented into developed countries, developing countries, and under-developed countries. The gross domestic product of a country, its per capita income, standard of living of the people, and some aspects of demographics of a country like age are considered when segmenting the global market on a national basis. Further, markets can be segmented on the basis of density of population or the climatic conditions across regions.

For example, people are migrating from rural areas to cities due to the increasing education and career opportunities in cities, leading to an increase in the population of the metros in the country. This will make a difference to marketers of specific services or products. In addition, marketers should also analyze the behavioral changes of the population that has migrated.

7.4.3 Psychographic Segmentation

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

Lifestyle

Marketers can gain valuable insights into the buying behavior of their customers by analyzing their lifestyles. Further, they will be equipped with an understanding of their customers' way of life, their activities, interests, opinions and beliefs. This in turn will help them design their products or services accordingly. This type of segmentation also helps marketers to effectively design their marketing mix for the customers.

For example, the lifestyle of a young and single professional will be entirely different from that of a person who has just retired from service. In this example, the young professional might be more keen on spending than saving, while the retired person might think of investment options that will provide him with a steady income.

Personality

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

7.4.4 Behavioral Segmentation

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

Benefit segmentation

This segmentation divides the customer base on the basis of the benefits sought. That is, the customers are grouped according to the benefits that they are looking for when consuming a product or service. Marketers should gather adequate information on the various benefits that different types of people are looking for and then assess the ability of their product or service to deliver those benefits.

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For example, when a couple decides to go in for an insurance policy, they could look at interim benefits and long-term benefits. However, another couple going in for an insurance policy, could desire a different set of benefits from the policy, depending on their needs and financial plans.

Purchase occasion segmentation

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

User status segmentation

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

Usage rate segmentation

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

Loyalty segmentation

This segmentation divides customers on the basis of the degree of their loyalty toward a certain product or service. Marketers should consider price and product

or service availability while segmenting the market based on customer loyalty. Let us discuss the types of customers based on their degree of loyalty:

- **Hardcore loyalists:** Customers who always use a specific brand of service and who refuse to switch on to any other brand, are known as hardcore loyalists. This behavior is exhibited mostly by cigarette smokers, newspaper readers, etc. For example, an avid reader of The Hindu, who does not think of shifting to The Times of India or any other daily, is a hardcore loyalist.
- **Softcore loyalists:** Customers who are loyal to two or three brands of product or service are known as softcore loyalists. Marketers attempt to develop strategies that shift customers from being softcore loyalists to hardcore loyalists. For example, a customer who does not mind reading The Hindu or The Times of India or The Indian Express, is a softcore loyalist.
- **Shifting loyalists:** Customers who shift their loyalty from one brand to another are known as shifting loyalists. For example, a person who was loyal to The Hindu till recently shifts his loyalty to The Times of India based on the coverage of topics and presentation. There is a possibility that he might shift back to any of these newspapers in the future.
- **Switchers:** These customers are not attached to any brand. They are more deal prone and they always look for the best deals that bring them value for money. These customers are not loyal to any brand and are equally comfortable with any brand and are known as switchers. For example, a person who does not have any preference for any particular brand of liquid wash keeps changing brands depending on who offers the best price-saving offer.

Buyer readiness and marketing factors

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

Check Your Progress - 1

1. Which of the following refers to the process of dividing a market into distinct sub-groups of buyers based on shared needs, characteristics or buying behavior?
 - a. Positioning
 - b. Differentiation

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- c. Market targeting
 - d. Market differentiation
 - e. Market segmentation
2. Identify the market coverage strategy that aims at serving all consumers by offering a single product or service.
 - a. Single-segment strategy
 - b. Concentrated marketing approach
 - c. Differentiated marketing approach
 - d. Undifferentiated marketing approach
 - e. Customized marketing
 3. Which of the following market coverage strategies is also known as the product-variety marketing approach?
 - a. Mass marketing strategy
 - b. Concentrated marketing approach
 - c. Differentiated marketing approach
 - d. Undifferentiated marketing approach
 - e. Segmentation approach
 4. (Before foraying into the retail banking), Srinidhi Bank was a housing finance company targeting high networth individuals. What kind of targeting strategy was the bank employing at that time?
 - a. Differentiated marketing
 - b. Single-segment strategy
 - c. Undifferentiated marketing
 - d. Market specialization
 - e. Multi-segment approach
 5. Segmentation based on lifestyle is an example of:
 - a. Psychographic segmentation
 - b. Benefit segmentation
 - c. Demographic segmentation
 - d. Loyalty segmentation
 - e. Psychological segmentation
 6. Certain customers who always use a specific brand of service and refuse to switch over to any other brand. Under which of the following customer groups, would you categorize this type of customers?
 - a. Switchers
 - b. Shifting loyalists
 - c. Softcore loyalists

- d. Loyalist
 - e. Hardcore loyalists
7. Naveen, a businessman, likes to read at least three newspapers a day to keep abreast of the latest happenings in the world of business. He doesn't mind reading *The Economic Times*, *Business Standard*, and *The Financial Express*. Under which of the following customer groups can he be categorized as?
- a. Switcher
 - b. Shifting loyalist
 - c. Softcore loyalist
 - d. Hardcore loyalist
 - e. Loyalist

Activity 7.1

As mentioned in eplans.com blog of 2019, few real estate builders in many Indian cities announced over 1000 small house plans. The flats will have an area of 1000 sq. feet and a two-bedroom apartment with a hall and a kitchen and can be comfortable for a family of 2+2. What kind of segmentation was used by the real estate builders? Identify the targeting strategy adopted by the real estate builders in the above case.

Answer:

7.5 Requirements for Effective Segmentation

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

Some of these factors are discussed below.

7.5.1 Measurability

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

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Example: Measurability of Segmentation of Starbucks

Walmart's US operations are basically divided into two reportable segments - Walmart US and Sam's Club. Its non-US operations are known as Walmart International. The leading international markets of Walmart are Mexico, the United Kingdom, Canada, and China. Walmart US is the biggest reportable segment of the company that accounts for the huge chunk of its revenue. This segmentation variable by Walmart is easily measurable, understandable and assessable for conducting its business operations.

For details, check out Abhijeet Pratap, "5C Analysis of Walmart", <https://notesmatic.com/5c-analysis-of-walmart/>, November 7, 2021 (accessed on 4/5/22).

7.5.2 Accessibility

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

7.5.3 Substantiability

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

7.5.4 Actionability

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

7.6 Process of Market Segmentation

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

7.6.1 Identifying Customer Segments

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

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

Example: KFC – Identifying Customer Segments

KFC initially had stiff competition from Mc Donald’s, Dominos etc. in Indian market. But by 2021, KFC became the ‘fastest-growing’ leading fast-food chain in India. As of 2021, KFC had 412 outlets all over India. The segments identified for KFC under behavioral variable are taste conscious, quality conscious, class conscious and those who are conscious about the quality and price.

Source: Sophonsiri, S. and Polyorat, K. (2009). The impact of brand personality dimensions on brand association and brand attractiveness: the case study of KFC in Thailand. Journal of Global Business and Technology, 5(2), p.51. Cited in <https://bohatala.com/kfc-strategies-marketing-project-report/>. Accessed on 28/4/22.

7.6.2 Developing Measures for Structural Attractiveness

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

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7.6.3 Selecting Customer Segments

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

7.7 Market Targeting in Services

Targeting follows market segmentation as a natural step and is defined as the process of estimation and comparison of the previously identified segments for selecting one or more segments that fetch the best results for the business. The chosen segments should be the most profitable for the company and should also help in delivering superior value to the chosen customer base.

Marketers compare the segments based on their attractiveness in terms of their ability to earn and sustain profits, and their compatibility with the objectives and resources of the company. For example, a fitness and beauty center that targets young women who are figure and health conscious is likely to be more successful in reaching out to the right audience and effect sales as compared to a firm which communicates to all people in the market. This targeted approach is bound to increase the hit rate and earn more profits than just offering services to women of all ages.

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

7.7.1 Bases for Targeting Identified Segments

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

Segment size and growth potential

The size of the different segments in the market should be compared on the basis of their present capacity and their future potential as well. For example, an

educational institution could compare the relevant data for full-time students, part-time students, and distance-education students based on their ability to earn profits for the institution. This comparison would provide insights on viability of the each of the segments, thus enabling the institution to choose its target segment. On the other hand, if the segments are not large enough or currently not profitable, the institution should go a step further to identify which segment has high growth potential, and would be beneficial for it in the long-run.

Structural attractiveness

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

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

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

Last, segment attractiveness is also affected by the relative power of buyers, whose strong bargaining power may control the prices. Further, buyers possess

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the power to demand a superior quality of products or services. This situation increases the competition between the players as they try to produce better quality products or services than their competitors in order to attract new customers and retain existing ones. However, this situation might affect the profitability of the players in the industry.

Company objectives and resources

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

7.7.2 Targeting Strategies

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

Single-segment strategy

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

Selective specialization

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

Product specialization

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

Example: Targeting Based on Product Specialization by Nescafe

Nescafe initially struggled to penetrate its instant coffee in Japanese market as it is a tea drinking country. But it popularized its instant coffee flavor targeting different segments - children and youth - by introducing coffee flavored sweets and candies. Then decade later they re-entered the Japanese market, and its strategy worked out successfully through vending machines. By 2020, Japan became 7th largest coffee importer in the world, with consumption of over 430 million tons of coffee. It crafted value added services like introducing a robot 'Pepper', which can read and respond to human emotions, and can make coffee and serve on a tray in electronic stores.

For details, check out <https://www.linkedin.com/pulse/nescafes-success-story-japan-patience-emotional-marketing-mishra> (accessed on 28/4/22)

Market specialization

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

Full-market coverage

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

7.8 Mass Customization/Individualized Service

Mass customization is all about meeting an individual customer's needs by manufacturing a product or offering a service in a cost-effective manner. Mass customization is defined as the process of offering customized products or

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services to individual customers by using flexible processes, without foregoing the advantages of mass production. It requires modifying product structures and adopting new technologies.

7.8.1 Factors that Companies Consider before Adopting Mass Customization

Companies consider the following key factors before adopting mass customization strategy:

- Companies should first understand their customers' opinion about customization of the products or services. If the customers are not keen on customization, then a company needs to think over its decision to customize its services.
- Secondly, companies should assess their ability and the extent to which the existing processes and technology can offer customization. They should also estimate the need for any further investment to modify the processes in the future. They should analyze the information available regarding customer needs and their marketing department's ability to cater to these. Further, companies should also assess their process design and their capacity to turn customer needs to actual specifications. Finally, a company should evaluate the degree of flexibility in its existing systems to accommodate mass customization according to the nature of the product or service.
- Companies should also analyze if they are the pioneers in the industry in adopting mass customization and if that is the case, how much time their competitors will take to catch up. The company should assess the advantages and disadvantages of being the front-runner. A company should also assess the reaction of a competitor's customers and thereby the competitive advantage to the company.
- Finally, a company should assess its culture and internal resources to adapt to the changes brought in by adopting mass customization. If there is a need for organizational change, then the company should take the necessary initiatives in developing the employees through effective leadership and change management. This should obviously be supported by sufficient financial resources.

7.8.2 Approaches to Mass Customization

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

Let us now discuss these approaches in detail:

Collaborative customization

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

Adaptive customization

Companies offering adaptive customization develop a standard product or service that can be altered by the customers to match their specific needs. This means companies neither change the product/service nor the packaging, but they enable their customers to make the changes in the functioning of the product or service according to their needs. Improvements in technology have come to nullify the difficulty involved in customers making the changes in products or services to suit their needs.

For example, McDonald's offers wide choices of fast-food items according to the tastes of customers in various countries. Customers have the choice of changing the toppings of a pizza, or order for a small burger, etc., and they can even celebrate birthday parties at McDonald's.

Cosmetic customization

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

Transparent customization

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

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

Example: Transparent Customization @ Vivanta

Vivanta by Taj was designed to capture an emerging high-end segment. This segment is younger, more cosmopolitan group of travelers who wanted something new, contemporary, and are technologically savvy. It uses customer data and based on their preferences, it will offer customized services according to their needs when they visit the next time. It uses technology and data to provide personalized services to individual needs of its customers. Like offering their favorite type of food/dishes, favorite room fragrance, favorite interior furnishings color, etc. Customers will be surprised with such transparent customization even when they are not repeatedly expressing their needs and favorites.

For details, check out <https://landor.com/work/taj-group> (accessed on 4/5/22).

Check Your Progress - 2

8. Which of the following segmentation evaluation criteria provides insights to effectively design and manage marketing mixes to serve different segments?
 - a. Measurability
 - b. Accessibility
 - c. Substantiability
 - d. Accountability
 - e. Actionability
9. Which of the following marketing strategies aims at selecting one or more actionable segments for serving, so that business profitability is optimized?
 - a. Targeting
 - b. Differentiation
 - c. Customization
 - d. Positioning
 - e. Segmenting

10. Which of the following strategies is also known as the differentiated approach, and involves targeting more than one segment?
 - a. Full-market coverage
 - b. Market specialization
 - c. Product specialization
 - d. Exclusive specialization
 - e. Selective specialization
11. What is the process of offering customized services to individual customers by using flexible processes without foregoing the advantages of mass production?
 - a. Market specialization
 - b. Full-market coverage
 - c. Mass customization
 - d. Concentrated approach
 - e. Cosmetic customization
12. Which of the following marketing strategies aims at helping customers who are not comfortable with selecting from a wide variety of options available?
 - a. Adaptive customization
 - b. Cosmetic customization
 - c. Transparent customization
 - d. Collaborative customization
 - e. Selective customization
13. Pizza Haven offers a wide variety of pizzas to suit the tastes of customers in various countries. Customers have the choice of changing the toppings of a pizza. Which of these approaches to mass customization does the company follow?
 - a. Adaptive customization
 - b. Cosmetic customization
 - c. Transparent customization
 - d. Collaborative customization
 - e. Flexible customization

Activity 7.2

Hyundai Limited plans to implement a vehicle-tracking system, wherein computers directly control the process workstations. The car production schedule is fed directly into the process automation system. This will enable

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the machine to produce a particular car model based on the production schedule, which is in tune with the customer requirements. What are the different approaches that companies can adopt to serve their customer segments better by customizing products? What factors should Hyundai consider before adopting this concept?

Answer:

7.9 Summary

- Companies have realized that though no two customers have the same preferences or needs at the same time, some of their purchasing patterns are similar.
- Marketers have, therefore, identified groups of customers who exhibit similar needs and offer products and services to these groups. Marketers call these groups segments.
- Marketers have segmented customers on the basis of geographics, demographics, psychographics, or on behavioral characteristics.
- After segmenting the market, marketers analyze each segment on factors like profitability, compatibility, competitive advantage, and growth potential. A thorough analysis of these factors gives the marketer an idea of whom to target or which customer segment to target.
- A market segment is targeted using five strategies --- single-segment strategy, selective specialization, product specialization, market specialization, and full-market coverage. Further, marketers have developed various marketing mixes for different target segments by adopting any of the five targeting strategies.
- A new topic called mass customization has evolved from the customers' desire to purchase products or services that can satisfy their individual needs.
- Companies enjoy the advantages of mass production by adopting mass customization. At the same time, they satisfy the needs of individual customers.
- Companies that want to survive in the global environment have no other way but to accept and adopt mass customization to some extent, depending on their operations and resources.
- Marketers are developing new standards in customization to delight their customers.

7.10 Glossary

“A marketer’s ‘market segment’ consists of his existing as well as prospective customers whose needs, desires, and expectations are different from the customers of other segments and match the resource-constraint set of the marketer”.

Accessibility: This refers to a firm’s ability to effectively reach out to the market segments through various distribution and promotion channels.

Actionability: This refers to the ability of firms to effectively design and manage marketing mixes in order to attract and serve different segments.

Adaptive Customization: Companies offering adaptive customization develop a standard product or service that can be altered by the customers to match their specific needs. This means companies neither change the product/service nor the packaging, but they enable their customers to make the changes in the functioning of the product or service according to their needs.

Behavioristic Segmentation: Customers are divided on the basis of their knowledge of a product or service and their attitude toward that product or service.

Benefit Segmentation: This segmentation divides the customer base on the basis of the benefits sought.

Collaborative Customization: This type of customization aims at helping customers who are not comfortable with selecting from a wide variety of options available. Companies adopting the collaborative approach conduct interviews in the first phase and help the customers express their needs. The second phase involves identifying available products or services that are offered by the company which can fulfill those needs. The final phase involves designing customized products or services for the customers, if there are none in the existing portfolio.

Concentrated (Single-Segment) Marketing Approach: It aims to serve limited segments in the total market.

Cosmetic Customization: Companies adopting cosmetic customization offer the same product or service to all customers, but with a different packaging as chosen by individual customers.

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

Differentiated (Product-Variety) Marketing Approach: It aims at targeting consumers of various segments by offering different products or services for each segment.

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Full-Market Coverage Targeting Strategy: A company that adopts this strategy aims to offer various products or services to the entire market. There are two ways for a company to implement this strategy -- (a) adopting a mass marketing strategy, where only one undifferentiated marketing mix is developed and (b) developing a differentiated marketing mix for each segment and thus covering the entire market.

Geographic Segmentation: Under this segmentation, the entire market can be divided into countries or states and the global market can be segmented into developed countries, developing countries, and underdeveloped countries.

Hardcore Loyalists: These are customers who always use a specific brand of service and who refuse to switch to any other brand.

Loyalty Segmentation: This segmentation divides customers on the basis of the degree of their loyalty toward a certain product or service.

Market Segment: A group of consumers who respond in a similar way to a given set of marketing stimuli. (According to Kotler and Armstrong).

Market Segmentation: The process of dividing a market into distinct groups of buyers with different needs, characteristics, or behavior who might require separate products or marketing mixes. (According to Kotler and Armstrong).

Market Specialization Targeting Strategy: A company adopting this strategy aims to meet the various needs of a target segment. The target segment for this group remains the same and the company tries to cater to the different needs of the segment by offering products or services across different categories.

Mass Customization: The process of offering customized products or services to individual customers by using flexible processes, without foregoing the advantages of mass production.

Measurability: The variables used for segmentation of the market should be easily understandable and assessable.

Product Specialization Targeting Strategy: It offers a single product or service to various segments.

Psychographic Segmentation: Marketers divide the market on the basis of the lifestyle and personality of their customers.

Purchase Occasion Segmentation: This segmentation divides customers on the basis of the reasons behind their purchase.

Selective Specialization (Differentiated) Targeting Strategy: It involves targeting more than one segment. The company prepares different types of marketing mixes for different segments, which may or may not be related to the same product or service.

Shifting Loyalists: These are customers who shift their loyalty from one brand to another every now and then.

Single-Segment (or Concentrated) Targeting Strategy: The firm following this approach targets only one segment, develops a single marketing mix, and eventually gains specialization in that segment.

Softcore Loyalists: These are customers who are loyal to two or three brands of product or service.

Substantiability: Marketers should choose their market segments in such a way that the returns on investment are earned quickly.

Switchers: These are customers who are not loyal to any brand and are equally comfortable with any brand.

Targeting: The process of estimation and comparison of the previously identified segments for selecting one or more segments that fetch the best results for the business.

Transparent Customization: Companies adopt this type of customization when customers' needs are predictable, and they are not willing to express their needs repeatedly. Companies offer customized products or services from a standard package and serve according to individual needs.

Undifferentiated (or Mass) Marketing Approach: It involves a single marketing mix and aims at serving all the consumers by offering a single product or service.

Usage Rate Segmentation: This segmentation divides customers based on the frequency of usage of a product or service.

User Status Segmentation: This segmentation divides customers based on their usage of a product or service and the pattern of usage.

7.11 Self-Assessment Test

1. It is not possible for a single company to develop products or services to cater to the needs of all the customers in the market as every business operates under a set of constraints. This led to the emergence of the concept of market segmentation. Explain the relevance of the concept in services. What are the bases on which markets are segmented?
2. Segmentation fails to achieve its objective if it does not consider certain basic factors. What are these factors? Explain in detail the process of market segmentation.
3. The step that follows market segmentation is market targeting. Explain target marketing. What are the various target marketing strategies that service providers use?
4. The customers' desire to purchase products or services that can satisfy their individual needs has led to the concept of mass customization. Explain this concept in detail.

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7.12 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.

7.13 Answers to Check Your Progress Questions

1. (e) Market segmentation

Kotler and Armstrong have defined market segmentation as “the process of dividing a market into distinct groups of buyers with different needs, characteristics, or behavior who might require separate products or marketing mixes.” A marketer should identify and select a segment that he/she is confident of serving better than his/her competitors given his/her resources and constraints, and thus emerge as a leading player in that segment.

2. (d) Undifferentiated marketing approach

The undifferentiated marketing approach, also known as the mass marketing approach, aims at serving all the consumers by offering a single product or service. It involves a single marketing mix.

3. (c) Differentiated marketing approach

The differentiated marketing approach aims at targeting consumers of various segments by offering different products or services for each segment. This approach is also known as the product-variety marketing approach.

4. (b) Single-segment strategy

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

5. (a) Psychographic segmentation

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

6. (e) Hardcore loyalists

Customers can be divided into hardcore loyalists, softcore loyalists, shifting loyalists, and switchers, based on their degree of loyalty. Hardcore loyalists are customers who always use a specific brand of service and who refuse to switch on to any other brand.

7. (c) Softcore loyalist

Customers who are loyal to two or three brands of product or service are known as softcore loyalists. Marketers attempt to develop strategies that shift customers from being softcore loyalists to hardcore loyalists. In the given example, Naveen is a softcore loyalist who doesn't mind reading *The Economic Times*, *Business Standard*, or *The Financial Express*.

8. (e) Actionability

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

9. (a) Targeting

Targeting is an essential part of marketing because of its ability to group customers with similar needs and serve them even at individual levels. It follows market segmentation as a natural step and is defined as the process of estimation and comparison of the previously identified segments for selecting one or more segments that fetch the best results for the business.

10. (e) Selective specialization

Selective specialization is also known as the differentiated approach and involves targeting more than one segment. The company prepares different types of marketing mixes for different segments, which may or may not be related to the same product or service. Marketers following this strategy adopt different promotional and distributional channels to target each segment.

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11. (c) Mass customization

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

12. (d) Collaborative customization

Gilmore and Pine identified four approaches to mass customization. They are collaborative, adaptive, cosmetic, and transparent customization. Collaborative customization aims at helping customers who are not comfortable with selecting from a wide variety of options available. In the first phase, companies conduct interviews and help the customers express their needs. In the second phase, they identify the available products or services that are offered by the company, which can fulfill those needs. And in the final phase, they design customized products or services for the customers if there are none in the existing portfolio.

13. (a) Adaptive customization

Pizza Haven follows the adaptive customization approach in which the company develops a standard product or service that can be altered by the customers to match their specific needs. This means the companies neither change the product/service nor the packaging, but they enable their customers to make the changes in the functioning of the product or service according to their needs.

Unit 8

Positioning and Differentiation of Services

Structure

- 8.1 Introduction
- 8.2 Objectives
- 8.3 Definition and Concept of Positioning
- 8.4 Positioning Strategies
- 8.5 Value Chain in Services
- 8.6 Differentiation of Services
- 8.7 Role of Positioning in Marketing Strategy
- 8.8 Steps in Developing a Positioning Strategy
- 8.9 Summary
- 8.10 Glossary
- 8.11 Self-Assessment Test
- 8.12 Suggested Readings/Reference Material
- 8.13 Answers to Check Your Progress Questions

“Positioning is how you differentiate yourself in the mind of the prospect. That is, you position the product in the mind of the prospect.”

- Al Ries

8.1 Introduction

As the quote aptly mentioned, the differentiation is the utmost important element to successfully position the service on the consumer minds.

In the previous unit, we discussed market segmentation and targeting. In this unit, we shall discuss the positioning and differentiation of services.

After segmenting and selecting the target market, the next logical step in developing a market strategy is to design a positioning and differentiation strategy. Let us look at some examples that show the importance of these concepts. The Ritz Carlton is considered one of the best hotels around the world for ‘customer service’. PVR Cinema has been successful in positioning its entertainment service as innovative. It promises a new cinema viewing experience in its ultra-luxurious, plush movie theatres and auditoriums. Also by hosting corporate functions, birthday parties, kitty parties in movie halls, the brand provides complete entertainment to its customers. McDonald’s is known

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for its ‘variety of products, speed, and efficient customer service’. Indigo Airlines in India has received many awards for being the best airline to serve the ‘economy class’ travelers. All these companies have differentiated their products/services well enough for their customers to view them as distinct from their competitors and occupy a unique place in their customers’ minds.

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

This unit will first discuss the definition and concept of positioning, and the concept of the value chain in services. It will next take a look at how to differentiate a company’s products or services from those of its competitors. The role of positioning in marketing strategy will then be discussed. Finally, it will touch upon the steps involved in developing a positioning strategy.

8.2 Objectives

After studying this unit, you should be able to:

- Define and explain the concept of positioning
- Discuss various positioning strategies
- Evaluate the value chain in services
- Discuss the importance of differentiation of services
- Describe the role of positioning in marketing strategy
- Identify the steps in developing a positioning strategy

8.3 Definition and Concept of Positioning

“Positioning is defined as the process of establishing and maintaining a distinctive place in the market for an organization and/or its individual product offerings.” Positioning involves a company’s products/services creating and occupying a place, in the minds of its customers. It also gives an account of the important

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

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

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

8.4 Positioning Strategies

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

Given below is a broad positioning framework based on which marketers could build their positioning. Firms should look at strategies for specific positioning. These specific positioning strategies can be based on an attribute or benefit of the

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service or the consumer or competitor of the service. Some of these specific strategies are discussed below.

- **Attribute positioning:** A service provider positions itself based on an attribute or a feature. For example, Jet Blue Airlines¹, a US-based budget airline, focused on attributes like friendly service, more leg space, fun snacks and in-flight entertainment to compete with competitors like Delta Airlines. However, positioning based on a feature or an attribute may not work too well for some services.
- **Benefit positioning:** Customers always look for benefits while making purchase decisions. It is, therefore, natural for service providers to base their positioning on the benefits that a product or service offered to the customer. The general psyche of the customer is to analyze and verify whether or not the benefit that he/she is looking for is offered by the brand. For example, Ariel, through its micro cleaning system, made a promise to customers to clean the toughest of dirt and stain on clothes. Patanjali had challenged the might of multinational giants like Colgate and HUL through its herbal toothpaste 'Danta Kanti'. It made a promise to bring the benefits of nature and Indian traditional care to its customers.
- **Use/application positioning:** The service is positioned as the best for a certain application. For example, SBI positions itself as the best in the business where educational loans are concerned.
- **User positioning:** The service is positioned for a specific target group of users. For example, India positions itself as the destination for tourists seeking inner peace.

Example: User Positioning by Green Gold Animation

According to Rajiv Chilaka, the founder and CEO of Green Gold Animation which has created Chhota Bheem, and has a viewership of 60 million kids, "This iconic character has become the mascot of the Indian animation industry, and today appeals to kids worldwide in its new global version, Mighty Little Bheem. The character was positioned as an Indian super hero in the minds of specific users who are children."

Source: Rajiv Chilaka, Founder & CEO Green Gold Animation. Jan. 07, 2022. "Brand Bheem Local Story Going Global". IFHE Wiseviews interactive webinar series. <https://online.ifheindia.org/evening-with-Rajiv-Chilaka.html>. Accessed on 2/5/22

- **Competitor positioning:** The service is positioned by the provider against a competitor's service offering. For example, Dollar Shave² competed against mighty players like Gillette by attacking the latter on price. The brand name

¹ <https://www.figmint.com/blog/5-companies-that-differentiated-in-crowded-markets-with-brand-strategy/>, 2019

² <https://www.figmint.com/blog/5-companies-that-differentiated-in-crowded-markets-with-brand-strategy/>, 2019

prefixed by Dollar hints at the price savings. The online player ‘Dollar Shave’ also excelled in customer engagement and focused on self-grooming and quality to compete against one of the most respected and well-known brands, Gillette.”

- **Category positioning:** The service provider positions itself as the category leader and becomes synonymous with the service. For example, Essel World became synonymous with an entertainment park in India till more such parks were started across the country.
- **Quality/price positioning:** A service is positioned in the market as possessing a certain quality standard or at a particular price. For example, some of the Oberoi-Hilton hotels are positioned as high quality, high-price hotels. The Taj group is trying to position some of its hotels in the ‘value for money’ category.

Companies, however, have to be careful in designing their positioning strategies and avoid some of the associated pitfalls. Some brands are under-positioned when they fail to provide a strong benefit or reason for the customer to choose them. The craze of natural, ayurvedic and organic is growing. A few home-grown brands with established herbal positioning like Himalayas, Dabur and Patanjali gained from this trend. However, many multi-national companies that attempted to position their brands as natural or herbal have not been very successful because they failed to convince customers as an authentic brand in the natural herbal platform.

Some brands are over-positioned for a very narrow segment and so many potential customers fail to notice it. TATA Group’s Tanishq Jewelry had to convince customers that its products were affordable, because customers perceived it as a premium brand.

When a brand communicates two or more contradicting features/benefits, it is termed confused positioning.

Irrelevant positioning is when the brand fails to attract any customers because of offering irrelevant and redundant features/benefits. Google Glass, which was considered as an innovative product, offered many unique features of a mini computer on a head-mounted device in front of the eye. Potential customers were told that they could video anything that they wanted while walking. Likewise, they could walk with a map in front of their eyes. The average did not relate to the device. They were not convinced on why they need to use the device at all.

It is termed doubtful positioning when a company promises something and the customer doubts its capacity or the brand’s capacity. Wrinkle free creams, beauty creams are examples of doubtful positioning. Customers often doubt the veracity of the claims made.

8.5 Value Chain in Services

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

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

Today's organizations stress on leveraging on the core activities by outsourcing the rest. Even manufacturing, earlier considered to be a core activity, is outsourced by many organizations. The stress is also on delivering the value chain³ advantages to the end customer. Organizations feel that by outsourcing many of their non-core activities, they can concentrate more on their core activities, and thereby deliver better service to the consumer. Outsourcing involves sub-contracting a part of the value chain activities (inbound logistics, production, manufacturing, outbound logistics and after sales service). Businesses hire external team of professionals for various jobs for various reasons like low cost, expertise or timely service.

To ensure that an organization receives a certain amount of profit margin, the value chain analysis should be performed and it should cover the entire value system where it operates. An organization can follow the steps mentioned below to perform the value chain analysis:

- First, an organization is required to analyze its own value chain. This might involve assessing the costs related to each activity.
- Later, the value chain must be evaluated i.e., an evaluation of how well a company's product or service fits in with the customers' value chain.
- Further, an organization should identify ways to obtain cost advantages when compared to its competitors.
- Last, an organization should identify and implement ways that will enhance the value for the customer either by reducing costs or by increasing performance.

³ The various activities that a business goes through to bring the final product to the customer constitute the value chain, Companies try to gain competitive advantage by adding value to customers in each of the activities of the value chain.

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

Another way of analyzing the value chain is to understand how the value chain system can be optimized by minimizing cost and maximizing value to the customer. The value chain system has a range of activities that add value to the final product that is delivered to the customer. The supplier, the manufacturer, the service provider and the service-seeker, all have a distinct value chain, but they are all inter-related. The network that maximizes its overall benefits does better than an individual firm that concentrates on its value chain.

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

Example: Value Chain of Jewellery Industry

Mr. Ajoy Chawla is the CEO of Titan's jewelry division which includes brands like Tanishq, Mia, Zoya and CaratLane. Titan's jewelry division has a presence in 200 towns with more than 450 retail outlets and an outsourcing network that stretches across the country. According to him, the value chain of jewellery industry in India is craft led value chain, but the karigars have been exploited. The jewellery industry in India is large but fragmented and unorganized. The size of the market is estimated to be Rs. 350,000 crores (\$40 bn) with 300,000 retailers and 4 million karigars. Even though 9 out of 10 diamonds in the world are polished in India, the market penetration is still low at about 15% as of Oct 2021. (Diamonds are mined across the world. They are traded primarily in Antwerp and Israel.)

Source: Ajoy Chawla CEO, Jewelry Division, Titan Company Limited. Oct.1. 2021. "Transforming India's jewelry Value Chain: The Tanishq Way". IFHE Wiseviews interactive webinar series. <https://online.ifheindia.org/evening-with-mr-ajoy-chawla.html>. Accessed on 2/5/22.

8.6 Differentiation of Services

As mentioned earlier, the differentiated advantage of an organization will add to its profit margin. In fact, with today's cut-throat competition, companies should differentiate their products/services from those of their competitors to survive in

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the market. A company can use various differentiation strategies when it aims to uniquely position its products/services in its customer's mind. The first step towards differentiation is to decide the number of benefits and attributes on which a firm wants to differentiate its products/services from those of its competitors. For example, a hotel offering free pick up and drop facility at the airport is differentiating its service based on the convenience and price factors as the customers have to hire a taxi otherwise.

8.6.1 Differentiation in Services through a Customer-centric Approach

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

- **Important:** Customers in the target group view the difference offered by the firm as very important and attach high value to it.
- **Distinctive:** The product/service attribute offered by a firm is not offered by its competitors, or the value of the differential attribute offered is unique when compared to that offered by its competitors.

Example: Distinctive Differentiation by Paradise Biryani Brand

According to Mr. Gautam Gupta, CEO of Paradise Biryani, managing a heritage brand is a challenge as well as an opportunity. The core product of the group, Biryani, is today a celebrity brand and well known across the country for its distinctive differentiation through its taste and quality. Paradise Biryani is referred to as "world's favorite biryani." As of Sep 2021, Paradise has 42 branches spread over 8 cities. The group aspires to be in 20+ cities over the next 5 years with 500+ outlets. The food services market in India is valued at \$ 50 billion. Biryani is the largest segment making up 10%. Paradise has about 1% of the total biryani market. About 90% of the market is unorganized.

Source: Gautam Gupta, CEO of Paradise Biryani. Sep.10. 2021. "Transforming a heritage business: The journey of Paradise Biryani". IFHE Wiseviews interactive webinar series. <https://online.ifheindia.org/heritage-business.html>. Accessed on 2/5/22

- **Superior:** The differentiating features/benefits offered by the firm should be superior to that offered by competitors.
- **Communicable:** The difference in the offer of the firm should be easily explained and communicated to the customers.
- **Pre-emptive:** The difference offered by a firm should be such that it cannot be copied by its competitors easily.

- **Affordable:** Customers should be able to pay for the difference in service/product being offered by the firm.
- **Profitable:** A firm should be able to offer the difference to the customer without losing out on its own profitability.

8.6.2 Positioning Services in Competitive Markets

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

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

What makes customers perceive a service company's service as different from that of competitors. What value do service marketers communicate to customers and how is different from what competitors provide. Positioning services in competitive markets is about differentiating the service and creating a position in the competitive landscape for the service brand. The service brand needs to represent certain core values that sets it apart from competitors. A good positioning plank considers competitors, their size and position, the target group, the strengths and opportunities and threats in competitive landscape and the method through which value is delivered to customer.

Activity 8.1

With tariff wars reaching a plateau, cellular operators are looking at several other mobile applications to differentiate themselves from competitors. What criteria should a cellular operator like Hutch meet to differentiate itself? In what ways can it go up the value chain through service offerings targeted at the business sector?

Answer:

Check Your Progress - 1

1. Mercedes Benz, through its various advertisement campaigns and communication measures, has created a deep impression in customers' mind that it is a top car in the luxury car segment. Which of the following marketing strategies has it been pursuing successfully?
 - a. Retaining customers
 - b. Positioning strategy
 - c. Segmentation strategy
 - d. Targeting strategy
 - e. Differentiation strategy
 2. Which type of positioning involves communicating two or more contradicting features?
 - a. Under positioning
 - b. Doubtful positioning
 - c. Confused positioning
 - d. Irrelevant positioning
 - e. Effective positioning
 3. A bank promoted its savings account product by highlighting product features like nil-balance account, free access to any ATM, and Internet banking. What positioning is the bank trying to achieve?
 - a. Attribute positioning
 - b. Benefit positioning
 - c. User positioning
 - d. Quality/price positioning
 - e. Competitive positioning
 4. When, a firm makes a product or service the obvious choice for the customers to opt for, as no other firm offers differential benefit in such a way, then which of the following differentiating criteria, is it satisfying?
 - a. Superior
 - b. Distinctive
 - c. Pre-emptive
 - d. Important
 - e. Communicable
-

8.7 Role of Positioning in Marketing Strategy

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

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

A tourist destination may have to do some research to find the right mix. The most important aspect in this research is to peep into the minds of the target market and learn their needs, preferences and expectations and identify the tangible evidence that satisfies them. In other words, a tourist destination should gather information on the attributes on which tourists base their decision to visit a certain place. For example, a place with facilities for shopping, dining out, sight-seeing, guided tours, etc., coupled with reasonable pricing, may attract a large chunk of the tourist market. In addition, it is also important to learn how customers weigh the services of one tourist destination against competitors. This kind of knowledge will help a tourist destination position itself attractively in the customers' minds, when compared to its competitors.

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

Example: Positioning Strategy of Starbucks

As of 2022, Starbucks positioning strategy was 'Authentic Coffee, Great Experience'. Initially the brand positioning was focused on Niche market. Then as it wanted to expand to additional customer segments, its positioning also evolved adding new value propositions.

Contd.....

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It focused on self-experience and building relationships and finally arrived at positioning ‘Authentic Coffee, Great Experience’ to its target customers. The positioning was embedded into its marketing strategy and it could give its customers a great experience and an authentic coffee, thereby becoming world’s favorite coffeehouse chain.

For details, check out <https://shahmm.medium.com/brand-positioning-strategy-starbucks-an-example-d870fa552d6d#> (accessed on 2/5/22)

8.8 Steps in Developing a Positioning Strategy

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

8.8.1 Determining Levels of Positioning

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

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

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

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

8.8.2 Identification of Attributes

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

- Customers often base their decisions on the unique features offered by the product *class*, as example, a hotel offering a free sauna bath or massage to its customers as a complementary gift.
- Customers consider the specific uses fulfilled by the products/services offered by a particular company. For example, insurance products that also serve as an investment option.

- Customers also base their decisions on the price of the product/service in comparison to the perceived delivered value. For example, a student might not mind spending a huge amount on getting an MBA degree as he/she perceives it to be a guaranteed path to a bright future.
- A service's ability to serve the needs of particular set of users also determines its saleability. For example, Disney Land positions itself as a fun place for children and Goa positions itself as the destination for fun-loving youth.
- The attributes should also provide rational and emotional benefits to the customers. For example, a customer may opt for a certain hotel as it is in the heart of the city and convenient to travel from his/her office. At the same time, he/she might opt for a particular airline because he/she likes the personal attention given by its crew members.

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

8.8.3 Location of Attributes on Positioning Map

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

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

8.8.4 Evaluating Positioning Options

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

Strengthening present position against competitors

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

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Identifying an unoccupied market position

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

Repositioning the competitors

This strategy aims at regular repositioning of a company's present position to obtain a superior position as compared to its competitors.

8.8.5 Implementing the Position

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

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

The service

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

The price

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

The location

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

The promotion

A marketer has to concentrate on promotional and advertising aspects, as they clearly communicate a company's position to customers. The positioning

statement should do the job of clearly communicating the position a marketer wants to occupy in his/her customers' minds.

The people

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

The processes

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

Example: Implementing Position by the Service and Promotion @ Emirates Airlines

Emirates Airlines service level positioning statement is "To frequent business travelers seeking to fly experience with high comfort and convenience, Emirates is the perfect luxurious airline because it provides non-stop flights, quality service, and modern entertainment system." At the corporate level, it positioned itself as a quality airlines services provider across destinations from Europe and Asia. At the category level, it positioned itself as an airlines catering to business travelers, business class passengers etc. categories.

For details, check out <https://blogmarketing1819b103.home.blog/2019/05/14/emirates-positioning-statement/> (accessed on 2/5/22)

Activity 8.2

Tour and travel operators are facing a torrid time maintaining bottom-lines with the hike in diesel and petrol prices in India. In this scenario, how can a tour operator like Raj Travels segment the market and use a positioning strategy to prop up its sagging bottom-line?

Answer:

Check Your Progress - 2

5. Which of the following statements does not hold true regarding the role of positioning in marketing strategy?
 - a. The positioning strategy makes it possible for an organization's products or services to occupy a unique place in the minds of its target customers
 - b. This helps to improve an organization's market share and revenues as customers prefer its products or services to those of its competitors
 - c. Services are intangible in nature and this aspect makes it easy for service organizations to attract and position their services in customers' minds
 - d. The success of most of the companies is decided by the position they occupy in their customers' minds
 - e. A service organization cannot target all customers with varying interests and needs and hence differentiation and positioning is necessary
6. In order to differentiate its services in the highly competitive housing loan market, HDFC is offering value-added services like property advice and assistance in house construction activities to its customers. Which positioning option has HDFC opted for?
 - a. Repositioning as compared to the competitors
 - b. Identifying an unoccupied market position
 - c. Strengthening a present position against competitors
 - d. Niche positioning
 - e. Market leader positioning
7. Identify the statements that hold true regarding the location of attributes on the positioning map.
 - a. The basis for drawing the positioning maps can be objective or subjective, but not both
 - b. Subjective positioning is related to the visible attributes of the product or service
 - c. Objective positioning is related to the image and not the physical aspects of the service
 - d. Positioning maps are diagrams drawn to understand the competitive positioning
 - e. Positioning maps can be developed for each segment in the target market and these maps will show the positions of different players

8. Which of the following positioning strategies gives a very narrow picture of the company's brand?
- Under positioning
 - Over positioning
 - Confused positioning
 - Narrow positioning
 - Market leader positioning
-

8.9 Summary

- After the logical step of segmenting and targeting the market, a company should position itself in the minds of customers for its unique attributes, as compared to its competitors.
- Positioning a service is difficult as compared to products because services are intangible in nature. However, a company should identify a competitive position for itself in the market by differentiating itself from the competitors.
- A company should add value to its services by improving either its primary activities which consist of inbound logistics, operations, outbound logistics, marketing and sales, and service or its support activities which include the procurement processes, infrastructure of a firm, its human resource management, and the technology development. These inter-dependent and inter-related activities together contribute to the margin that the company aims to earn. This concept of a value chain has helped organizations identify their core and non-core activities so that some of them can be outsourced. The firm's strengths help the firm gain either a cost advantage or a differential advantage over its competitors.
- To gain a competitive advantage, a company should differentiate itself from its competitors based on the attributes that are important, distinct, communicable, superior, pre-emptive, affordable, and profitable to the customers.
- Companies should understand the importance of positioning in developing a marketing strategy and its influence on the profit margins of a particular company. This understanding will help a firm in framing a suitable positioning strategy.
- As part of the positioning strategy, a company should first determine the levels of positioning it wants to occupy in the market, identify the attributes that are important to the target market, and locate these attributes on the positioning map in relation to its customers.

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- Second, a company should also evaluate the positioning options available and decide if it wants to position itself against its competitor, or occupy a unique position in the market, or re-position itself.
- Last, a company should opt for a good implementation strategy that clearly communicates the desired position to its customers.

8.10 Glossary

Attribute Positioning: A service provider positions itself based on an attribute or a feature.

Benefit Positioning: Most service providers resort to benefit positioning as the general psyche of the customer is to analyze the benefit that he/she will derive by using a particular service.

Category Positioning: The service provider positions itself as the category leader and becomes synonymous with the service. For example, Essel World became synonymous with entertainment parks in India till more such parks were started across the country.

Competitor Positioning: The service is positioned by the provider against a competitor's service offering.

Positioning: The process of establishing and maintaining a distinctive place in the market for an organization and/or its individual product offerings.

Quality/Price Positioning: A service is positioned in the market as possessing a certain quality standard or at a particular price.

Use/application Positioning: The service is positioned as the best for a certain application.

User Positioning: The service is positioned for a specific target group of users. For example, India positions itself as the destination for tourists seeking inner peace.

8.11 Self-Assessment Test

1. After segmenting and selecting the target market, the next logical step in developing a market strategy is to design a positioning strategy. Define and explain the concept of positioning. What are the various positioning strategies?
2. To ensure that an organization receives a certain amount of profit margin, the value chain analysis should be performed. Explain the concept of value chain in services.
3. In today's world of cut-throat competition, companies should differentiate their products/services from those of their competitors to survive in the market. Explain the role played by differentiation in services.

4. Positioning makes it possible for an organization's products or services to occupy a unique place in the minds of its target customers. Describe the role of positioning in marketing strategy. Discuss the steps involved in developing a positioning strategy.

8.12 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.

8.13 Answers to Check Your Progress Questions

1. (b) Positioning Strategy

Positioning is defined as the process of establishing and maintaining a distinctive place in the market for an organization and/or its individual product offerings. It involves a company's products / services creating and occupying a place in the minds of its customers. In the case of Mercedes Benz, it has successfully created a top slot position for its models in the luxury segment in consumer's mind.

2. (c) Confused positioning

Companies have to be careful in designing their positioning strategies and avoid some of the associated pitfalls as it may lead to under positioning, over positioning, irrelevant positioning, confused positioning, or doubtful positioning. When a brand communicates two or more contradicting features/benefits, it is termed confused positioning.

3. (b) Benefit positioning

In the given example, the bank has adopted benefit positioning. Service providers resort to benefit positioning as the general psyche of the customer is to analyze the benefits that he/she will derive by using a particular service.

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4. (a) **Superior:** The firm makes the product/service an obvious choice for the customers to opt for, as no other firm offers the differential benefit in such a way.

The differentiating attributes of a product/service should meet the following criteria: Superior, important, communicable, distinctive, pre-emptive, affordable, and profitable.

- *Important:* The difference offered by the firm as very important and attach high value to it.
- *Distinctive:* The differential attribute offered is unique when compared to that offered by its competitors.
- *Communicable:* The difference in the offer of the firm should be easily explained and communicated to the customers.
- *Pre-emptive:* The difference offered by a firm should be such that it cannot be copied by its competitors easily.
- *Affordable:* Customers should be able to pay for the difference in service/product being offered by the firm.
- *Profitable:* A firm should be able to offer the difference to the customer without losing out on its own profitability.

5. (c) **Services are intangible in nature. This aspect makes it easy for service organizations to attract and position their services in customers' minds**

All the statements are true regarding the role of positioning in marketing strategy, except statement (c). The positioning of services is perceived as being difficult when compared to positioning of products. Services are intangible in nature. This aspect makes it even more difficult for service organizations to attract and position their services in customers' minds. Therefore, service organizations try to market their services with the help of tangible evidence to some extent.

6. (b) **Strengthening a present position against competitors**

In the given instance, HDFC is trying to strengthen its current position against its competitors. This strategy is followed when a company wants to avoid a direct fight with the market leader. Therefore, the company tries to strengthen its position by improving its offers and providing efficient service.

7. (e) **Positioning maps can be developed for each segment in the target market. These maps will show the positions of different players**

All the options are false except option (e). Positioning maps are diagrams that help illustrate the customer perception of a company's brand or product/service offering on various dimensions like price,

quality, product benefits, etc. It is true that positioning maps can be developed for each customer segment to understand how different customer groups view the company's brand viz-a-viz that of competitor's brand.

8. (b) Over Positioning

When a company over positions, it often ends up narrowly defining the brand. Here, the marketer communicates the brand as so special in such a way it targets only a very small group of customers.

Unit 9

Managing Demand and Capacity

Structure

- 9.1 Introduction
- 9.2 Objectives
- 9.3 Concept of Demand
- 9.4 Demand Patterns
- 9.5 Capacity Constraints
- 9.6 Strategies to Match Demand and Capacity
- 9.7 Creating a Demand Inventory
- 9.8 Yield Management
- 9.9 Summary
- 9.10 Glossary
- 9.11 Self-Assessment Test
- 9.12 Suggested Readings/Reference Materials
- 9.13 Answers to Check Your Progress Questions

“If there is genuine potential for growth, build capacity in advance of demand, as a strategy for creating demand. Hold the vision, especially as regards assessing key performance and evaluating whether capacity to meet potential demand is adequate.”

- Peter Senge

9.1 Introduction

As the quote aptly mentioned, the capacity and demand have to go together for achieving success.

In the previous unit, we discussed positioning and differentiation of services. In this unit, we shall understand how to manage demand and capacity.

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

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

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

This unit will first discuss the concept of demand and understand demand patterns, capacity constraints, and the strategies to match demand and capacity. It will then go on to talk about how to create a demand inventory through queuing and reservation systems. Finally, it will discuss the concept of yield management.

9.2 Objectives

After studying this unit, you should be able to:

- Discuss concept of demand and demand patterns
- Identify the capacity constraints
- Explain the strategies to match demand and capacity
- Discuss ways to create a demand inventory
- Define yield management, its process, application areas, and benefits

9.3 Concept of Demand

Demand is not an independent variable that operates in isolation. Many factors in the economy influence demand for certain goods and services, giving rise to fluctuating demand levels. Recession or boom in the economy, wars,

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technological developments, and natural disasters are just some of the factors that influence demand. Let us now discuss the effect of these factors on demand fluctuations.

9.3.1 Supply and Demand in Service Industry

Demand and supply management continues to be a major challenge for service providers. Demand management includes all efforts put in by management to influence the demand and ensure that it matches the supply.

Both demand and supply forces impact profitability, as they directly determine the pricing of services. Restaurants, banks, and transportation services are cognizant of the reality that there are fluctuations in the demand of services. Service characteristics like perishability and inseparability render supply inelastic. The only other option left for service marketers is to smoothen demand and ensure that demand fluctuations are minimum. The task of managing demand is easily done in the case of those services that are able to schedule customers. Airlines, transportation services, and hospitals that use reservations and prior appointments use scheduling heuristics⁴ to match supply and demand. The task of matching demand and supply continues to be complicated for services like insurance, emergency services, etc. where prior customer scheduling is not possible.

9.3.2 Contraction and Recession

Contraction is a phase in the economic activity, which is symbolized by a decrease in the growth rate of the economy. It is visible in retarded industrial production, employment, real-income, and trade. Economic contraction is said to have occurred when a country's GDP has experienced a decline for at least two quarters⁵. A contraction is bound to occur after an economy peaks. Hence, it is a painful but inevitable part of the business cycle. The discernible symptoms of economic contraction are a drop in the industrial demand and sales, a fall in real personal income, decline in employment, drop in investment level, employment level, etc. A contraction is triggered by a recession during which the growth rate is substantially below normal for six continuous months.

Technically, recession⁶ is said to have set in when an economy experiences negative economic growth (as measured by increase or decrease in GDP) for at least two consecutive quarters. A one-time crisis like the bank crisis in 2009 (banks followed risky lending policies, which lead to a crisis in banking industry) can also trigger a recession. Normally, the period of recession extends from

⁴ Systematic scheduling of a large number of tasks. In this case, the purchase orders are scheduled for delivery based on supply constraints and other priorities.

⁵ <https://www.businesstoday.in/magazine/trends/slowdown-vs-recession-vs-depression/story/3403.html>

⁶ <https://economictimes.indiatimes.com/definition/recession>

one to two years. When recession becomes persistent and the economy fails to pick-up, then the economy slips into a depression. Depression is a severe form of recession. It occurs when there is a significant decrease in the economy's total production along with a high unemployment rate. The various growth parameters witness significant decline and the economic sluggishness lasts for at least for a few years.

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

9.3.3 Expansion or Boom

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

9.3.4 Technological Developments

With rapid advances in technology and the invention of powerful tools like Internet, the lifestyle and purchase behaviour of people have changed significantly in the 21st century. The technology that people use in their day to day lives has changed rapidly and marketers need to know how and where they can reach and connect with their customers in the digital world.

Worldwide, the use of mobile phones (smart phone) has increased and marketers send out their brand messages through this powerful and cost effective medium. Also organizations are effectively using social media platforms to connect with consumers and also manage customer perceptions and attitudes towards brands through influencer-led and brand-led content. With new technological developments and the new avenues of marketing (Facebook, Twitter, YouTube videos, blogs, search engines, websites, television and press media), organizations face the huge challenge of integrating the marketing communication sent out through various media platforms.

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Technology has also impacted the way businesses collect, organize and manage data. Apart from historic data generated by the company, marketers have access to consumer data from other sources like customer engagement and conversations in social media etc. Marketers use data analytics⁷ to interpret ‘Big Data’ to gain customer insights. These insights help marketers to formulate marketing strategies, and also evaluate the effectiveness of marketing campaigns.

Businesses use Artificial Intelligence (AI) to study data patterns and use the data insights to predict consumer behavior and target customers through well designed and planned marketing strategies.

In the digital world, the number of internet-connected-devices is growing and this new phenomenon called ‘Internet of Things’ (IoT) is all set to revolutionize the marketing world. Every time customers use IoT devices, marketers too can gather more information relating to habits, likes and dislikes of customers, their buyer behavior, etc.

Cloud is a place where businesses can store data. Cloud enables businesses to store, organize and enable collaborative and cohesive team work by providing access to multiple users stationed in different locations. A user can even access cloud data from a smartphone. Cloud technology has significantly improved the efficiency of service organizations like banks, hospitals, etc.

Example: Technological Developments @ Amazon Web Services

Amazon Web Services (AWS) is the world’s most comprehensive and broadly adopted cloud platform, offering over 200 fully featured services from data centers globally as of May 2022. Millions of customers including the fastest-growing startups, largest enterprises, and leading government agencies are using AWS to lower costs, become more agile, and innovate faster. AWS has significantly more services, and more features within those services, than any other cloud provider from infrastructure technologies like compute, storage, and databases to emerging technologies, such as machine learning and artificial intelligence, data lakes and analytics, and Internet of Things.

For details, check out <https://aws.amazon.com/what-is-aws/> (accessed on 30/5/22).

E-Commerce, Augmented Reality and the list of technological developments just goes on and on. The new technologies like digital communication, Big Data Analytics, Cloud Technology, Artificial Intelligence, Augmented Reality etc. that were introduced in the recent past, have emerged as game changers in the business world. Companies that have used these technologies to gain competitive

⁷ <https://thevisualcommunicationguy.com/2017/04/17/how-technology-has-influenced-the-marketing-industry/>

advantage have emerged winners. It is imperative therefore that marketers not just update but also learn how to use modern technologies to gain competitive advantage.

9.3.5 Demographics

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

9.3.6 Natural and Other Disasters

The economic impact of natural disasters can be very severe and result in huge economic losses. While in many cases the impact may be local and temporary, in many other cases, it can be long lasting and profound. The 2011 earthquake in Japan for instance even shifted the world's axis, resulting in shortening of the length of the day. The following example illustrates the demand side and supply side impact of natural disasters on the economy and business environment.

- The catastrophic flood that the State of Kerala witnessed in 2018 is said to have wiped out Kerala's economic growth by a percentage point⁸. The budgeted growth of Kerala for the 2019 is predicted to fall to 6.5-7% from the originally predicted 7.5%. The Kerala floods in which 14 of Kerala's districts were flooded led to over 400 casualties and has inflicted damages to the tune of ₹ 21,000 crore (USD 3 billion) on the state. Over one lakh buildings were totally destroyed and 10,000 kms of roads have been wrecked. Agriculturists, whose crops were washed away, were the worst affected. Kerala is consumption driven state, and with loss of income and wealth, the demand for various products like automobiles would suffer. The tourism industry would witness a setback in the near future. Banks are bound to witness an increase in bad loans. Agriculture-based industries are bound to suffer due to shortage of raw materials. Thus, the Kerala floods would have a far reaching impact on many industries both on the supply side (due to shortages) and on the demand side (due to lack of purchasing power).

9.4 Demand Patterns

The first step towards managing demand in services is to understand and sketch a pattern of demand variation. It is also important to understand why some market segments have a greater demand when compared to others at particular times.

⁸ <https://qz.com/india/1368531/kerala-floods-automobile-it-rubber-sectors-worst-hit/>

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Further, we shall also discuss the factors that cause demand fluctuations, and finally understand how to forecast demand for services.

9.4.1 Sketching Demand Patterns

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

9.4.2 Foreseeable Cycles

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

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

Example: Demand Creation and Management @ Apollo Hospitals

Apollo Hospitals predicts and manages its demand cycles for its health check-ups by advertising regularly regarding its health check-up packages with attractive offers.

Contd....

During May 2020, it has announced preventive health check packages for every family member at 15% off on MRP on all Apollo Health checks. It also has a lot of packages like Health Check at Home Pack, Women's Pack, Senior Citizen Pack, Apollo Platinum Health Check, Advanced Heart Check etc. Through these concessions, demand for health check-ups will increase and also some will get converted as its patients if illness is detected.

For details, check out <https://www.apolloclinic.com/health-check-packages/> (accessed on 30/5/22).

9.4.3 Random Demand Variations

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

9.4.4 Demand Patterns by Market Segment

An organization that maintains a comprehensive customer database which includes all the transactions with each customer in a detailed manner is at an advantage as demand patterns exhibited by each segment can be easily identified. This type of database will give in-depth information about the stable or random demand patterns shown by various segments.

For example, if a tour operator keeps track of its regular customers, it might get some gainful insights into their spending patterns. If it notices that most of its customers take their families on an annual vacation every year, it can design special packages to suit their needs. Similarly, if a financial services firm identifies that the salaried middle class is interested in tax savings but not in insurance, it can design special instruments to suit their requirements.

9.5 Capacity Constraints

Capacity can be defined as the ability of a service organization to meet its demand and the extent to which it can do it. Capacity can be expanded or contracted to suit the demand patterns. However, this is not possible in some services as factors determining capacity such as time, labor, equipment, and other production facilities are fixed and cannot be expanded or contracted with demand.

Let us discuss these factors in detail.

- **Time:** The main constraint for expanding the capacity in some service businesses is the time available with the service provider. For instance, the

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revenues and profits of professionals like lawyers, doctors, consultants, etc., depend on their ability to use their time in a productive manner. However, when there is a high demand, these service providers cannot increase their capacity to offer services and when the demand decreases, they have ample free time, which cannot be utilized. Therefore, time is the biggest constraint for these service providers.

- **Labor:** Organizations that hire the services of employees to offer services to the customers face capacity constraints in the form of available or unavailable labor with the organization. For example, an increased demand for the services of a department in a university, a law firm, or a tax consulting firm, cannot be met when these service providers are already working at their maximum capacity. On the other hand, it may not be feasible for the organization to hire additional workers in a competitive market which exhibits low demand for services during the off season. The Indian IT firms, for example, hire employees in large numbers when the demand for their services increases. However, these employees have to sit on the bench when the market is down, and the size and number of projects decreases. Labor constraints may also arise from lack of skilful labor to perform the job.
- **Equipment:** Service organizations that require equipment to carry out their operations may face capacity constraints due to the limited equipment available with the service provider. Courier service providers like FedEx, UPS, etc., face constraints in terms of the size of the fleet available with them during festive season like Christmas, when the demand for courier services is high.

Example: Capacity Constraints @ FedEx

FedEx is predicting that in 2022-23 air cargo capacity will once again be hard to secure with space remaining scarce and supply chain issues supporting strong demand. Air cargo capacity in the first two weeks of December was down by around 4% in 2021 compared with the same period in the pre-pandemic year of 2019. Air cargo capacity in the first two weeks of December was down by around 4% compared with the same period in the pre-pandemic year of 2019. In 2021, there have been across-the-board cost increases. Also operating cost for its fleet is increased in 2022 due to multiple market forces and inflationary pressures. Hence Fedex is trying to switch over to EV trucks for its fleet in future.

For details, check out <https://www.aircargonews.net/region/europe/fedex-predicts-ongoing-cargo-capacity-constraints-in-2022/> (accessed on 30/5/22).

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

9.5.1 Role of Servicescape and Customers in Demand Management⁹

Servicescape refers to the physical surroundings or the service settings of a service organization. The service settings need to be appealing to the customer so that it creates favorable emotional and psychological responses that support purchase decisions. Let us understand the various aspects of Servicescape that optimize service delivery.

- Service layout is the way the service setting is organized. The design of the service layout should facilitate smooth and efficient flow of work. Service layouts need to be designed in such a way that it eliminates waste and optimizes the capacity of service facility. Let us take the example of hospitals. The service setting in a hospital should have appropriate signs, boards to guide patients to the various service areas. Further, there needs to be spacious waiting areas for patients waiting for their turn to see the doctor.
- The design of the Servicescape also depends on the type of service, i.e., inter-personal service or self-service. In inter-personal service type, both employees and customers are present in the service setting. Here, the service setting should facilitate interaction between the two parties. Social interaction among customers can also increase the duration of stay of customers in the service area and facilitate purchases.
- In the self-service type services, customers perform all operations on their own. ATMs, vending machines, self-service-retail stores and petrol bunks are suitable examples of this service type. In the case of self-service type services, proper signages, arrow marks and instructions need to be provided so that customers can help themselves.
- It needs no emphasis that a pleasing Servicescape stimulates demand. A retail store, for instance, must design its service setting in such a way that customers are able to easily identify and locate their purchase items and proceed to the billing location after completing their purchases. Customers should have enough space to move around and at the same time, redundant movement should be avoided.

⁹ Mary Jo Bitner. "Servicescapes: The Impact of Physical Surroundings on Customers and Employees", Journal of Marketing, Volume 56 (April 1992)-pgs-57-71

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Activity 9.1

Ms. Mahathi, a successful tax consulting firm owner, hired 20 consultants to handle her client's projects during 2019 and invested in infrastructure such as software, laptops, printers, etc. Due to COVID-19 pandemic, there was a decrease in the demand for projects during 2020. Due to this, some 7 consultants were idle during the pandemic period. Identify the key capacity constraints that Mahathi's firm is facing.

Answer:

9.6 Strategies to Match Demand and Capacity

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

9.6.1 Demand Shift

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

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

Varying the original service offer

Here, an organization adopting this method, changes its service offering to suit the seasonal, weekly, or daily demand fluctuations. For example, caterers who serve at marriages may choose to serve at birthday parties or business gatherings

during the non-marriage season. Thus, the core benefits associated with a service can be altered to match the demand and the organization's capacity to meet the same. However, organizations should weigh the pros and cons before changing the original service offering, as it requires changing the marketing mix elements like staffing, promotion, and pricing.

Communication with customers

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

Altering the timings of service delivery

Service organizations should note the periods when the customers need to or want to deal with the service provider. Maintaining business hours accordingly would help the customers as well as the service provider. Providing customers a convenient way to access service through alternative delivery channels can also be a suitable solution. For example, in the case of banks, bank branches which are open for limited hours for customers are now focusing on servicing customers, rather than just being operation centric. Banks provide 24 hours service through alternative service channels like internet banking and ATMs. Without visiting a branch, customers can perform a range of banking operations like fund transfers, ordering of cheque books and drafts, payment of utility bills, opening deposit account, accessing account statements and even applying for loans. The alternative delivery channel has reduced the long queues and has freed their time for servicing of customers.

Price differentiation

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

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9.6.2 Adjusting Capacity to Meet Demand

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

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

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

Some of the basic strategies adopted by service providers to match demand and capacity by altering capacity are discussed in detail here. They are covered under the broad approach of 'Chase demand'. This process involves matching the four

primary resources, namely, labor, time, equipment, and facilities with the demand. Some of the popular methods are:

- **Employ part-time or contract workers:** Organizations focus on recruiting part-time or contract workers instead of full-time employees in order to meet the changes in demand. For example, managements of holiday resorts employ more workers during the high demand season and consultants hire additional staff during the financial year-ending when there is a peak demand for their services.
- **Outsourcing:** This is a very popular method employed by today's organizations to handle demand variations. When organizations feel that hiring additional workers to meet a temporary increase in demand is too expensive, they employ the services of other firms that specialize in performing the required functions or tasks. This is advantageous as an organization can save money and time on training the new employees. They do not have to bother about excessive manpower when their business slows down during a slack period. For example, organizations outsource their recruitment activities to HR consultants.

Example: Adjusting Capacity to Meet Demand @ H&M

H&M is a Swedish multinational clothing company headquartered in Stockholm. Its focus is fast-fashion clothing for men, women, teenagers, and children. As of 2021, it operates in 74 countries with over 5,000 stores under the various company brands, with more than 100,000 employees. H&M gained a cost leadership by outsourcing manufacturing facilities for its textiles businesses to Bangladesh. It can get labor for cheapest rates from Bangladesh. The global garment business will grow by 65 percent by 2030 and Bangladesh's apparel business will also grow substantially as Bangladesh has huge opportunities.

For details, check out <https://www.statista.com/statistics/268522/number-of-stores-worldwide-of-the-hundm-group-by-country/> (accessed on 30/5/22).

- **Share facilities or rent equipment:** Another approach that can be adopted by organizations is to share their facilities to meet the variations in demand. For example, a school can be rented out to conduct an entrance examination on a Sunday when the school is closed for students. Looking at it from another angle, a facility or equipment can be obtained on rent as it is not feasible to purchase new equipment that would not be used at other times. For example, a caterer might rent large cooking utensils instead of purchasing them if he/she lands a big contract for a short period.

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- **Schedule downtime during periods of low demand:** Organizations should schedule their maintenance, repair and renovation activities during periods of low demand so that the equipment and facilities can be stretched beyond capacity during high demand periods. This approach should be employed for workers also by giving them time to relax. For example, an airline can conduct its maintenance work when the fleet is idle so that they can be ready for extra load during peak demand periods.
- **Cross-training employees:** This involves training employees to perform other tasks apart from their routine tasks, so that underutilization of labor does not take place in the organization. These multi-skilled employees can be shifted to tasks that are in high demand. For example, training an employee in sales and marketing will help the management to shift his/her services from HR to sales during periods of high demand.
- **Modify facilities or move equipment:** Facilities can be modified innovatively during peak/slack demand periods. For example, during slack demand periods, swimming pools at hotels can be used as a facility to coach people in swimming. On the other hand, some equipment can be moved from place to place to deliver the services at the consumers' convenience. For example, mobile banking enables a customer to continuously deal with the bank with the help of a mobile phone. Organizations are inventing and adopting novel ideas and concepts to align demand and capacity in these competitive times to reduce their costs and maximize their benefits.

Check Your Progress - 1

1. Identify the statement that does not hold true regarding demand.
 - a. It is an independent variable that operates in isolation
 - b. It is affected by factors like recession and wars and natural disasters
 - c. Technological developments change buying habits and impact demand of products
 - d. Managing demand in services is a major challenge as most services cannot be stored
 - e. Social and cultural factors change buying habits and impact demand
2. Which of the following statements regarding the factors of contraction and boom phases of the economy is not true?
 - a. During the contraction phase of the economy, the demand for goods and services goes down as the unemployment rate increases
 - b. During the boom period, the demand for goods and services increases, which enables producers to increase their supply and their revenue
 - c. During the phase of contraction, producers must recruit people to increase the supply, which results in an increase in the demand for labor

- d. During the boom period, many people are employed, and they try to invest in stocks, bonds, etc., to increase the value of their money
 - e. The factors that cause a recessionary trend interact with each other to lead to depression
3. Which of the following is not a basic strategy that service providers use to match demand and capacity by shifting the demand?
- a. Scheduling the downtime during periods of low demand
 - b. Varying the original service offer
 - c. Communicating with the customer
 - d. Altering the timing of service delivery
 - e. Price differentiation
4. Which of the following is not a basic strategy that service providers use to match demand and capacity by altering capacity?
- a. Altering the timing of service delivery
 - b. Modifying facilities or moving equipment
 - c. Employing part-time or contract workers
 - d. Cross-training employees
 - e. Use of technology to improve efficiency
5. Which of the following can be defined as the ability of a service organization to meet its demand by operating at the maximum level?
- a. Supply
 - b. Demand
 - c. Capacity
 - d. Service quality
 - e. Capability

Activity 9.2

Southside Hotels is a major player in the hospitality industry with a chain of hotels and resorts. Southside opened a new theme park in Hyderabad. Being the first of its kind in Hyderabad, it attracted visitors in thousands. Weekends and holidays experienced high demand and many visitors were unable to enter the park, as the tickets for the day got sold out. The management of the park was unable to cope with the increase in demand because of financial and operational constraints. What strategies should Southside adopt to meet the demand?

Answer:

9.7 Creating a Demand Inventory

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

9.7.1 Queuing System

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

The following are some of the strategies:

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

Example: Paying Premium Price for Tatkal Schemes @ Indian Railways

Ministry of Railways is coming up with a new initiative every day to maintain the crowd demands and provide service to every passenger in urgent need. It has separate price schemes for customers who are willing to pay more as ‘Tatkal scheme’ and ‘Premium Tatkal scheme’ where one day before the travel, one can book train tickets. Premium Tatkal is much costlier than their original price when it comes to premium Tatkal timing and the booking process. The ticket rates are dynamic and vary depending upon the availability and booking rates of the available seat. In contrast, Tatkal ticket prices have a fixed percentage of increase compared to the basic fare.

For details, check out <https://railrecipe.com/blog/premium-tatkal-timing-booking-rule-and-more/> (accessed on 30/5/22).

Psychological considerations in waiting

Service organizations often tend to ignore the feelings of customers when they are kept waiting. However, this is an important aspect as disappointed and frustrated customers may opt for a competitor’s service.

The following principles were proposed by David Maister in his article, “The Psychology of Waiting Lines,” to provide more insights into ‘waiting’ for both customers as well as service providers.

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

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Otherwise, customers should be informed on their present position to avail the service. For example, regular announcements at an airport on the delayed flights and their timings will reduce the anxiety and frustration of the waiting passengers.

- **Unexplained waits are longer than explained waits:** People are more patient when they are given the reasons for waiting. For example, when a fitness expert keeps his/her clients waiting at this gym, he/she can make the wait more tolerable by informing them that he's/she's caught in a traffic jam or that his/her car has broken down. On the other hand, if no reasons are given then his/her customers become less tolerable of the uncertainty regarding the wait.
- **Unfair waits are longer than equitable waits:** When customers perceive that they have been treated in an unfair manner and that they have waited longer than other customers, they would be disappointed and irritated. Therefore, if some customers receive priority over others, the service personnel should explain to the other customers, the reason behind breaking the queue and serving them first. The best example is of a hospital or clinic where patients with serious problems are treated first though other patients have been waiting for a longer period.
- **The more valuable the service, the longer will people wait:** Customers who are in queue for a high-value service will wait for a longer time more patiently. For example, an enthusiast will willingly wait for a long time in queue to get tickets for his/her favourite movie. Similarly, a customer at a five-star hotel would wait longer for his food to be served than he/she would normally do in a small restaurant.
- **Solo waits feel longer than group waits:** Customers find waiting less tedious if they are in the presence of other waiting customers. While waiting in a group, their attention is occupied by the activities of the other people in queue. The customer also feels that he/she is not alone and there are other people waiting with them. For example, a customer waiting for the delivery of a pan pizza alone might feel that the time taken is longer when compared to the same person waiting in the company of other people.
- **Physical discomfort makes waiting feel longer:** If the waiting area is not clean or comfortable, then customers perceive the waiting time to be longer than it actually is. For example, waiting in a sofa in an air-conditioned room would be easier than waiting on a hard bench in a poorly ventilated room.
- **Waiting seems to be longer for new or occasional users:** If a person, who usually travels by air, decides to travel by train and the train gets delayed, he/she might find the waiting period longer than others who usually travel by train and are accustomed to such delays.

9.7.2 Reservation Systems

This approach helps service organizations to spread demand and avoid unequal demand situations. This system ensures that service products will be ready for delivery when customers arrive at the place. For example, customers prefer reserving movie tickets through the internet or the telephone and reaching the theater just in time to collect the tickets and watch the movie. This helps customers escape the difficulties of standing with uncertainty in a long queue for the tickets. In addition, reservation systems also help to shift demand to slack periods. However, service providers face certain problems when they use reservation systems. Some people may not show up after reserving the product. Some organizations adopt the system of overbooking to solve the problem. However, the success of this method depends on the accuracy in predicting the percentage of people who may not show up.

In case of inaccuracy, customers may face a problem due to non-availability of service. To prevent this, instead of overbooking, some organizations charge a fee from the customers who fail to show up. This helps the organization cover losses due to unutilized capacity. For example, the railways charge a cancellation fee when a customer decides to cancel the ticket.

9.8 Yield Management

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

9.8.1 Yield Management Process

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

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

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The third step takes advantage of the customers' varying needs by setting different prices for the same product or service. An efficient pricing requires knowledge of statistical methods that helps in determining price points, their cut-off points, and the capacity required at each price point. However, the success of these pricing strategies would depend on the organization's managers' efficiency in accepting the relevant demand that would maximize revenue and rejecting the reservations that would not in any way increase revenue. Looking at the earlier example, let us see what the management can do to maximize revenues? Let us suppose the price difference between the two categories of rooms is ₹ 2000 per day. The management can reduce the room tariff of the executive suites by ₹ 1000 during vacation times, and make it more attractive for tourists. This will help the management fill the vacant executive suites, thereby maximizing the hotel's revenues.

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

Calculating Yield

Yield percentage can be calculated using the formula

$$\text{Yield} = (\text{Actual Revenue} / \text{Potential Revenue}) \times 100$$

Where,

Actual Revenue= Total number of rooms sold \times Room fare at which it was sold

Potential Revenue= Total number of rooms \times Full fare of the room

Here, actual revenue as the name suggests is the actual sales which a hotel or airline achieves. So, the number of rooms or seats booked may not be equal to the total number of seats or rooms available. To sell the rooms or seats the company may have given discounts, all these have to be taken into account while calculating actual revenue in the above mentioned formula. Further, potential revenue is the ideal scenario where all the rooms or seats would be booked or sold at the full fare decided by the service firm without providing any discounts or offers to the customers. So the ratio between actual and potential revenue would provide service firms with the yield. Several variations of this basic formula are used by service businesses as many companies might feel it is a very simple way of calculating yield. The following examples are provided to understand the implementation of the above mentioned yield percentage calculation method.

For example, if a hotel had 100 rooms available at \$120 per room per night and if the hotel offered discounts and all the rooms were booked but at a discounted pricing of \$90 per room per night then the yield percentage would be calculated as follows:

$$\text{Actual Revenue} = \$90 \text{ discounted room fare per night} \times 100 \text{ rooms} = \$9,000$$

$$\text{Potential Revenue} = \$120 \text{ room fare per night} \times 100 \text{ rooms} = \$12,000$$

$$\text{So, yield percentage} = (\$9,000 / \$12,000) \times 100 = 75\%.$$

In the above example if 100 rooms were available at \$120 per room per night, and the maximum potential revenue remains the same. However, 60 rooms were sold at full fare but 40 rooms were sold at a discounted price of \$100 per night. Now, the yield percentage could be calculated as follows:

$$\text{Actual Revenue} = (\$120 \text{ room fare} \times 60 \text{ rooms}) + (\$100 \text{ discounted room fare} \times 40 \text{ rooms}) = \$11,200$$

$$\text{Potential Revenue} = \$12,000$$

$$\text{Yield Percentage} = (\$11,200 / \$12,000) \times 100 = 93\%$$

At a hotel 100 rooms were available at \$120 per room per night. However in the hotel leisure travellers were given a 20% discount whenever they booked a room and travel agents received a discount of 15% whenever they bought in guests. Out of the 100 rooms 40 rooms were booked by leisure travellers and 30 rooms were booked by travel agents. The yield could be calculated as follows:

$$\text{Actual Revenue} = (40 \text{ rooms} \times [\$120 - 20\% \text{ of } \$120]) + (30 \text{ rooms} \times [\$120 - 15\% \text{ of } \$120]) + (30 \text{ rooms} \times \$120) = \$3,840 + \$3,060 + \$3,600 = \$10,500$$

$$\text{Potential Revenue} = \$12,000$$

$$\text{Yield} = (\$10,500 / \$12,000) \times 100 = 87.5\%$$

In the case of a hotel, the management can calculate yield percentage for months, category of rooms like yield for deluxe category of rooms or luxury category of rooms, or the hotel can calculate the yield percentage for an entire year. For a hotel a comparison of year on year yield percentage would provide the management insights on past consumer trends, determine effective methods of pricing the hotel rooms, assess future consumer trends by looking at past yield. For example if the previous year yield of a hotel is around 60 % the hotel should strive to improve its yield to more than 60% in the next year. This process of improving a firm's yield is a continuous process, where the ultimate goal is to reach high percentages of yield. However typically in service industry a yield higher than 80% is deemed as very big achievement. Such calculation for a hotel can determine which months in a year are with peak demand, and which the months in a year the hotel may struggle. Hotels or airlines which use yield management should figure out ways to improve upon their past yield percentage this could be past yield of a month or a year.

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Shortcomings of Yield Management

There are some drawbacks of using yield management techniques and systems in service firms, such as

1. **Over-emphasis on profit maximization-** Yield management practices concentrate only on profit and maximizing revenue for a firm, whereas many experts believe that the focus should be at long term sustainability of the firm in a intense competitive environment of a service industry.
2. **Customer Dissatisfaction-** If a customer finds out that he or she is paying a higher price for the same service, this may cause customer suspicion and dissatisfaction. Customers to an extent should be educated as to why they are paying a particular price for the service and why the price may differ with different booking dates.
3. **Low employee motivation-** Often managers of hotels are rewarded incentives based on the rooms they are able to sell. As the prices of the rooms may be reduced due to yield management techniques, the managers' incentives would also be reduced and this may impact on employee motivation to work.
4. **Training Employees-** The yield management process of the firm has to be clearly explained to the employees, this would provide clarity to employees as to why and how a firms' services are priced in a certain manner.
5. **Dependence on past information-** Past transaction details like number of rooms booked and the fare at which the rooms were booked are needed for calculation of yield. New firms like a new hotel or an airline do not have such information and hence cannot use such yield management techniques as it heavily relies on availability of past data.
6. **Not good for forecasting trends-** As yield management takes into account past data, it is a beneficial tool to forecast future trends. Moreover yield management is simple and does not consider economic conditions which almost always dictates the pricing strategies of a service business.

Despite the shortcomings mentioned above, application of yield management is very popular in service industry. Yield management has provided several benefits to the firms which incorporated the techniques to price their services.

9.8.2 Application Areas of Yield Management

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

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

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

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

Example: Application Areas of Yield Management @ Indian Magnum Opus Film RRR

Maverick director Rajamouli's Magnum Opus RRR released worldwide on March 25, 2022. Advance booking in Hyderabad city for the film has grossed over Rs 2.5 crore, USA premiere crossed \$2.5M gross in advance booking. Ticket price during advance booking was at a higher cost of around Rs 500 in Hyderabad. Fans were ready to pay extra price to watch the magnum opus in the first day/week. RRR movie creators have applied yield management and due to this the film had more collection during prerelease and first week worldwide.

For details, check out <https://www.filmibeat.com/telugu/news/2022/rrr-advance-booking-report-record-opening-on-cards-for-ram-charan-jr-ntr-s-period-drama-331718.html?story=2> (accessed on 30/5/22).

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

9.8.3 Benefits of Yield Management

Many industries have reaped success by adopting the yield management concept. Some of the benefits of yield management are listed below:

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

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Activity 9.3

The period after summer and before the festive season is usually off-season for durables and soft drinks marketers. Because of this, advertising spots are available on different channel networks at reasonable prices. How can an awareness of the yield management process help a media buyer like Mindshare of the WPP group, sell its services at a higher price and thus increase profitability?

Answer:

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6. Which of the following aims at earning the highest possible revenue in capacity-constrained services through the service-provider's operations?
 - a. Yield management
 - b. Capacity management
 - c. Knowledge management
 - d. Total quality management
 - e. Capability management
7. From the following, identify the option (below given) which is not a benefit of yield management.
 - a. It demonstrates the ability of the management to sell its services at a higher price, when the customers are willing to pay
 - b. It helps the management determine the break-up of services to be sold at full value and at a discounted price
 - c. It helps in fixing the prices in the discounted category using the demand levels forecast earlier
 - d. It helps in targeting and positioning
 - e. It helps organizations to manage inventory at an optimum level and thus avoid market share erosion or revenue dilution
8. Big Bazaar, a retail giant, offers mega discounts during five days in a year, between 21st and 26th of January, calling it 'Sabse Sasthe Paanch Din' (Cheapest five days in a year). Expecting a big crowd during this time period, the store organizes its store space to ensure that customers are able to move around and comfortably shop. New arrivals are placed in critical places to attract the attention of customers and impulse products are placed near bill

counters. Changing the service layout to accommodate the surge in the flow of customers has become an annual affair in Big Bazaar. Which of the following aspect is being optimized to manage increase in footfalls and positively influence consumer purchase behavior?

- a. Increase store capacity
 - b. Increase store inventory
 - c. Change the service setting or servicescape
 - d. Increase the range of products
 - e. Brand communication
9. Which of the following is a wrong practice to tackle the problem of waiting?
- a. Notify customers when it is their turn
 - b. Use queue management systems to reduce customer waiting time
 - c. Offer 'express lanes' for emergency cases
 - d. Service organizations charge a higher price to those customers who want immediate service
 - e. Keep waiting customers clueless about the waiting time
10. Which of the following statements regarding the psychological considerations in waiting is true?
- a. Group waits feel longer than solo waits
 - b. Pre-process waits seem longer than in-process waits
 - c. Explained waits are longer than unexplained waits
 - d. The less valuable the service, the longer people will wait
 - e. Occupied time seems longer than unoccupied time
-

9.9 Summary

- The perishable and intangible nature of services takes away the 'storability' feature of services. Thus unlike products it is not possible to store services and use the same during peak demand periods.
- Demand for services depends on many factors like the phase in which the economy operates (i.e., whether the economy is in recession or expansion), demographic factors, natural disasters, and the technological developments in the market.
- Organizations should understand the basics of how and why demand for a service fluctuates. A thorough understanding as why services are demanded is necessary to design strategies to manage demand.

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- Charting out the patterns of demand will help organizations find some predictable cycles. If predictable cycles do not exist and the demand patterns are random, organizations should further find the reasons for such random demand and try to form strategies to reduce them.
- Understanding demand is not enough to manage demand fluctuations. It also involves the organization's capacity to fulfil the demand. Therefore, it is imperative for an organization to understand its capacity constraints in terms of time, labor, equipment, and facilities. A clear understanding of demand patterns and capacity constraints will help an organization design suitable strategies to match them both.
- Demand and capacity can be matched either by shifting demand and stretching or aligning capacity to meet demand. Shifting demand involves varying the original offer to meet current demand, communicating the periods of peak and low demand to the customers, altering timings of service delivery to spread the demand across the peak and slack periods, and finally adopting a price differentiation strategy to meet the demand fluctuations.
- Capacity can be managed to meet the demand by stretching the four primary resources namely time, labor, equipment, and facilities. Further, when it is not possible to stretch these factors, an organization can vary the basic mix and use these resources creatively to meet the demand fluctuations. This strategy is popularly known as 'chase demand'. This can be done by hiring part-time employees, outsourcing activities, sharing or modifying facilities, renting or moving equipment, cross-training employees, and finally, by scheduling downtime delivery periods of low demand.
- Apart from matching demand and capacity, an organization may also try to create a demand inventory. The first step is to deal with the waiting line or queue at the time of service delivery. One way is to adopt the first-come first-serve principle. When it is not possible to do so, organizations can solve the problem through market segmentation. Other strategies involve serving those customers who require the services on an emergency basis first, reducing the time of transaction, serving important customers first, or by serving customers who contribute the most to the organization's profits.
- Organizations should consider the psychological feelings of the customers while they are waiting and make the process more tolerable for them. This can be achieved by keeping customers busy while waiting, involving them in activities related to the service, and reducing their anxiety by informing them about the current situation and the duration of waiting. The reasons why the service delivery was taking so long and why some of them were served first have to be explained to customers. Organizations should understand the customers' tendency to wait for longer periods depending on the value of the service and their irritability while waiting alone. Additionally, by adopting reservation systems, organizations can spread the demand equally across peak and slack periods.

9.10 Glossary

Boom: An extended period of expansion is referred to as a ‘boom.’

Contraction: It is a phase in economic activity which is symbolized by a decrease in the growth rate of the economy and is visible in retarded industrial production, employment, real-income, and trade.

Depression: It is a severe form of recession. It occurs when there is a significant decrease in the economy’s total production along with a high unemployment rate for more than a year.

Expansion: It is a phase in the business cycle which is represented by an increase in the overall economic activity and growth.

Queuing: It means to ‘wait in line’. This situation arises when demand exceeds capacity, forcing customers to wait till their turn comes.

Reservation Systems: This system ensures that service products will be ready for delivery when customers arrive at the place.

Yield Management: Also known as revenue management. It aims at earning the highest possible revenue in capacity-constrained services through the service-provider’s operations.

9.11 Self-Assessment Test

1. The mismatch between demand and capacity during peak hours is well-known. Illustrate the concept by explaining the various tactics restaurants use to match supply and demand during peak hours.
2. Many products face seasonal demand. Take the example of certain services that face lean demand during certain time periods. What strategies can be followed to increase consumption during time periods when demand is low?
3. In hospitals, there are times when there is a big queue and the waiting period of customers increases. How can technology be used to manage the queue and minimize the waiting period of patients?
4. Explain some pricing tactics and strategies that are commonly used to match demand and supply.

9.12 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.

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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.

9.13 Answers to Check Your Progress Questions

1. (a) It is an independent variable that operates in isolation

Options (b), (c), (d) and (e) are true regarding demand. Demand is not an independent variable that operates in isolation.

2. (c) During the phase of contraction, producers must recruit people to increase the supply, which results in an increase in the demand for labor

Options (a), (b), (d) and (e) are true regarding the factors of contraction and expansion of economy that influence the demand. During the boom or expansion phase of the economy, producers must recruit people to increase the supply, which results in an increase in the demand for labor.

3. (a) Scheduling the downtime during periods of low demand

Some of the strategies used by service providers to match demand and capacity (by shifting the demand) are varying the original service offer, communicating with customers, altering the timings of service delivery, and price differentiation. Scheduling the downtime during periods of low demand is a strategy that service providers use to match demand and capacity by altering capacity.

4. (a) Altering the timing of service delivery

Employing part-time or contract workers, modifying facilities or moving equipment, and cross-training employees are strategies that service providers use to match demand and capacity by altering capacity. Altering the timing of service delivery is a strategy used by service providers to match demand and capacity by shifting the demand.

5. (c) Capacity

Capacity can be defined as the ability of a service organization to meet its demand and the extent to which it can do it. Capacity can be expanded or contracted to suit the demand patterns.

6. (a) Yield management

Yield management aims at earning the highest possible revenue in capacity-constrained services through the service-provider's operations. It is also known as revenue management.

7. (d) It helps in targeting and positioning

Yield management aims at earning the highest possible revenue in capacity-constrained services through the service-provider's operations. Its benefits include: (a) it demonstrates the ability of the management to sell its services at a higher price when the customers are willing to pay (b) it helps the management determine the break-up of services to be sold at full value and at a discounted price (c) it helps in fixing the prices in the discounted category using the demand levels forecast earlier and (d) it helps the organization manage inventory at an optimum level and thus avoid market share erosion or revenue dilution. The above mentioned stated in options, 'a', 'b', 'c' and 'e', are the benefits of yield management. Option 'd' is not a benefit of yield management.

8. (c) Change the service setting or servicescape

Servicescape defines the physical surroundings of the service setting. When a customer enters a service setting, the physical surroundings should be such that it is comfortable and creates a positive environment for favourable purchase behavior. Big Bazaar is optimizing its service setting or servicescape to make the best out of the 'Sabse Sasthe Din' mega sale opportunity.

9. (e) Keep customers clueless about the waiting period

Queuing means to 'wait in line' and this situation arises when demand exceeds capacity forcing customers to wait till their turn comes. There are certain right practices and wrong practices that organizations deploy to manage long queues. Keeping customers ignorant or clueless about the duration of the waiting period is a wrong period. This is because customers appreciate information.

10. (b) Pre-process waits seem longer than in-process waits

All the statements about the psychological considerations in waiting are false, except statement (b). The psychological considerations in waiting include -unoccupied time seems longer than occupied time; pre-process waits seem longer than in-process waits; anxiety makes the waiting period seem longer; uncertain waits are longer than known, finite waits; unexplained waits are longer than explained waits; unfair waits are longer than equitable waits; the more valuable the service, the longer people will wait; solo waits feel longer than group waits; physical discomfort makes waiting feel longer; and waiting seems to be longer for new or occasional users.

Unit 10

Role of Technology in Services

Structure

- 10.1 Introduction
- 10.2 Objectives
- 10.3 Technology in Services to Gain Competitive Advantage
- 10.4 Business Technology Strategy
- 10.5 Technographic Segmentation
- 10.6 Technology as a Strategy to Improve Customer Service
- 10.7 Impact of Technology on Different Types of Service Sectors
- 10.8 Impact of New Technology on Distribution of Services
- 10.9 Customer Analytics and Role of IT in Customer Acquisition and Retention
- 10.10 Technology: A Double Edged Sword
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- 10.14 Suggested Readings/Reference Materials
- 10.15 Answers to Check Your Progress Questions

“Any sufficiently advanced technology is equivalent to magic.”

- Sir Arthur C. Clarke

10.1 Introduction

In the previous unit, we discussed demand and capacity management. In this unit, we shall understand how technology has become a vital and integral of every service organization as aptly said in the quote. Service organizations today are facing major challenges due to significant changes in the business environment. Competition is getting severe and the most important players in the market are looking at technology as a solution to face challenges. The unit first discusses how technology helps gain competitive advantage.

Most service organizations set aside a certain percentage of the annual budget to enhance their digital competencies because this investment has become necessary to sustain leadership position or sometimes even to ensure survival. Pro-active companies also spell out their ‘Technology Strategy’ to give a future direction to their investment in technology.

Moving forward the unit discusses how technology impacts service delivery. If employed properly, IT helps in making organizations more efficient and effective by improving processes and cutting down costs. New technology facilitates better service experiences for the customer and helps service organizations engage customers in more meaningful ways to keep them loyal and enhance overall revenues of the organizations.

The technological divide in the society has made it necessary for marketers to segment consumers on the basis of their attitude and interest towards technology. The unit discusses in detail why and how service marketers use attitude towards technology as a basis for segmentation.

The impact of technology on different service industries like education, transportation, banking, hospitality, travel and tourism and entertainment etc., is significant and this has been discussed in detail in the unit. When the common man gets used to a certain technology, companies have to pop along and quickly change their promotion and distribution strategies to better serve customers and get more competitive in the process. The last topic of the unit discusses how technology aids in promotion and distribution of services.

10.2 Objectives

After studying this unit, you should be able to:

- Discuss the impact of technology as a strategy to gain competitive advantage
- Elucidate how technology aids better servicing of customers
- Explain how new technology has impacted various service industries like education, travel, hospitality, entertainment, banking, transportation and logistics sectors
- Elaborate on the role of new technology in distribution of services

10.3 Technology in Services to Gain Competitive Advantage

Information revolution is sweeping through global and national economies and service organizations are trying to grasp the implications of the same on their businesses. Dramatic reductions in the cost of obtaining, processing and interpreting information have changed the way businesses serve customers.

The information revolution is underway and managers constantly need to watch out for disruptive new entrants with digital capabilities, whose innovative service offerings captivate the minds of the consumers. Thus, organizations need to be conscious of the fact that the competition is very severe and any laxity on their part would leave them behind in the race. Incorporating technology strategies into a company's business plan is to have a clear sense of direction on how technology would aid business growth. The next topic 'Business Technology Strategy' elaborates on this crucial document that defines the technology strategy of a company.

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Example: Competitive Advantage @ Amazon through Technology in Services

Amazon is the world's largest Online Retailer. It is world's 2nd ranked company by Fortune 500 rankings, in 2021. Its revenue growth was 38% in the year 2020. Amazon became world's largest e-retailer by its market orientation approaches. It achieved a revenue of \$ 113.080 billion by June 2021, leveraging its best weapon - technology. Technology like Amazon Web Services (AWS) is the world's most comprehensive and broadly adopted cloud platform, offering over 200 fully featured services from data centers globally as of May 2022.

For details, check out <https://fortune.com/company/amazon-com/fortune500/> (accessed on 31/5/22).

10.4 Business Technology Strategy

“CIOs (Chief Information Officers) have a vital role in defining the technology direction for the organization in the future years to achieve competitive advantage.” – Edward Forrest

Organizations have invested in technology in the past and also plan to make investments in beneficial technologies for the future. Business technology strategy is a document that incorporates the following:

- Plans relating to the building, maintaining and leveraging of technology to gain competitive advantage.
- Technology roadmap to identify new opportunities and threats in the environment. Also, take stock of strengths and weaknesses in the technology front.
- How people (customers and employees) use technologies in ways that create value for the organization.
- Aligning the technology strategy with the overall corporate strategy.

The Business Technology strategy is a very important document based on which the Chief Information Officer (CIO) communicates the value of IT, the direction and its application to all employees across the enterprise. A good technology strategy must be anchored in the business goals, since any strategy, IT strategy including, sets out to achieve the goals of the company. Investment in technology is a huge investment, and hence, it is important that spending on IT should add value to the enterprise and gives the organization the much needed competitive edge. The document plan also lays out the action plan for implementation of the strategy.

The document of a Business Technology (BT) Strategy is useful in many ways. There is tremendous pressure on managers to deliver in the short run, and thus

managers often tend to miss the forest for the trees. A BT strategy forces managers to develop a futuristic approach and direction to the technology initiatives of the company. BT strategy is aligned to the overall corporate strategy, and hence, the role of technology in achieving the goals and objectives of the organization is very clearly documented.

Example: Incorporating Business Technology Strategy @ Mercedes Benz

Consider Mercedes Benz, world's bestselling luxury brand. It is a product leader in the segment. It provides the most sophisticated technology and quality. It achieved around 2 million sales globally in 2021, including smart cars and marched ahead of BMW AG and Volkswagen AG's Audi. It was successfully crowned as the world's bestselling luxury car brand for the sixth year in a row. It gained competitive advantage through incorporating business technology strategy.

For details, check out <https://www.statista.com/statistics/347054/unit-sales-of-mercedes-benz-cars/> (accessed on 31/5/22).

10.5 Technographic Segmentation

All businesses know that only a small section of the larger population of consumers may be favorably disposed and willing to buy their products or services. An intelligent categorization of customers becomes necessary in this context. Based on marketing insights gained, companies segment the market, focus and target on specific segments to avoid wastage of scarce resources by spreading them thin on a huge population.

Marketing students may be familiar with the concepts of demographic, psychographic and lifestyle segmentation. However, this traditional basis of segmentation may not support the requirements of the modern internet and social media marketing era, in which sophisticated smartphones, personal computers, Kindle and other gadgets add spice to the life of customers. The concept of techno-graphic segmentation was first introduced by Edward Forrest, in a study of VCR (video cassette recorder) users. In an article published in 'Journal of Advertising Research', Edward Forest suggested that the profile of technology users should be based on a mix of variables like usage patterns, comfort level and attitude towards technology as well as lifestyle perspective, which he called techno-graphics.

Technology is accessible and affordable to the modern customer. He/she is unleashed by technologies that would have baffled his yesteryear counterparts. Forester Analysts have incorporated technology disposition or readiness and primary motivation in a matrix and put forward their novel segmentation scheme to the marketing world.

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Example: Technographic Segmentation @ LinkedIn

Account-based marketing (ABM) may be the rage among B2B marketers, but technographic marketing is emerging as a complementary targeting tactic. Technology companies like Amazon, IBM, Google, and Microsoft might want to attract new clients to their cloud offerings using technographic segmentation. With more than 706 Mn members and 55 Mn+ companies, LinkedIn is the most steadfast professional social network that can be tapped with these B2B customer engagement strategies shared in the infographic. 96% B2B marketers used LinkedIn to distribute content (in the last 12 months) and 80% put paid strategies behind their content on the B2B social media platform, according to LinkedIn data.

For details, check out <https://www.socialsamosa.com/2021/02/infographic-b2b-marketing-strategies-to-activate-on-linkedin/> (accessed on 31/5/22).

10.5.1 Combining Lifestyle, Income and Technology Attitude to Segment New Age Customers

In the year 1985, Edward Forest combined Lifestyle, Technology Attitude and income of consumers to unveil a new form of segmentation called ‘Technographic Segmentation’¹⁰. Forrester Research Inc., an independent research and advisory firm, adopted the concept of technographic segmentation.

Technographic Segmentation helps marketers by providing an understanding of consumers and consumer markets by providing them with the required customizable data for analysis and action. Income was always a very important significant factor to predict adoption of any innovative product. It is common knowledge that people may differ in their attitude towards technology. For instance, the younger generation is technology savvy and has a higher propensity to consume new technology products. Forrester has incorporated ‘Lifestyle’ with three classifications under it: career orientation, family orientation and entertainment orientation. Based on these three dimensions, Forrester classified consumers into 10 segments: Fast Forwards, New Age Nurturers, Mouse Potatoes, Techno-Strivers, Digital-Hopefuls, Gadget grabbers, Hand shakers, Traditionalists, Media Junkies and Sidelined Citizens. The characteristic traits of each of the segments based on dimensions of lifestyle, income and technology attitude are given below.

Technology Optimists, High Income

- **Fast Forwards:** Fast forwards rank high on income, technology optimism and career-orientation. These people are time-strapped because they are career-oriented. They are top users of technology because they want to master

¹⁰ Ram Mohan Rao, “Services Marketing”, Pearson Education, Second Edition, 2011

their physical environment. Since their incomes are high, they are willing to invest in new generation technology products that would assure success in their career and assure them a superior status.

- **New Age Nurturers:** New Age Nurturers are family-oriented persons who believe that the future of their family members would be secure and protected by using high technology products. Since their incomes are high, they are happy to invest in technology that would enhance the security of their loved ones.
- **Mouse Potatoes:** These persons are dedicated to interactive entertainment. Their high-income background permits them to purchase new technology gadgets to fulfill their quest for entertainment.

Technology Optimists, Low Income

- **Techno Strivers:** These are low income people who aspire to be like Fast Forwards. Their strong career-orientation motivates them to invest in new technology products and experiences beyond their means.
- **Digital Hopefuls:** Digital hopefuls are family-oriented persons with moderate or low incomes and high on technology optimism. Constrained by their low incomes, they use low cost versions of technology. They constitute a promising market for low-cost PCs.
- **Gadget Grabbers:** Like Mouse Potatoes, this segment of consumers are entertainment lovers but constrained by their low income, they go for products like low-cost, high-tech toys, MP3 players and portable game players.

Technology Pessimists, High Income

- **Hand shakers:** These individuals are successful, high income group persons with a high-level of career-orientation. At the same time, they are technology pessimists. Technology doesn't excite them at all. In fact, they are happy with the status quo technology that has served them well for so long.
- **Traditionalists:** Traditionalists, who are family-oriented persons with high income, feel that the status quo technology products would provide greater security to their family. In fact, they become very suspicious of new technology.
- **Media Junkies:** Media Junkies are high income persons with a penchant for entertainment. But they are technology pessimists. These individuals have the urge to experience new things but at the same time they lack the confidence to explore new technology products. They are visual TV lovers.

Technology Pessimists, Low Income

- **Sidelined Citizens:** Members of this group have low incomes and they are technophobes. They are least receptive to digital media channels or new

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technology products. They differ in their motivational levels towards technology, their relative lack of resources and high pessimism for new technology products makes them technology laggards.

10.5.2 Technographic Segmentation: Implications for Service Businesses

Differentiation and targeting of customers are the steps that follow market segmentation. Technographic segmentation has its implications for service firms in all the three areas: Segmentation, Targeting and Positioning.

Mobile commerce compels businesses to move from cash payments to card payments. The techno-graphic segmentation given by Edward Forest help businesses understand that Hand-shakers and Traditionalists are unlikely to use their mobile phones to make payments as compared to Fast Forwards and Mouse Potatoes. Hence, service companies can segment and effectively differentiate and position their services accordingly. Flipkart, while launching its 'Cash on delivery' scheme on sales, perhaps had in mind the majority of conservative Indians who are technophobes.

Mouse Potatoes are a group of tech-freaks who prefer using technology for entertainment rather than education. This group of tech-freaks consists of high income households (single or with no kids) that enjoy entertainment and prefer technology as a tool for entertainment. Thus, it is apparent that this segment can be targeted to sell high-end smartphones and that they are likely to be gamers as well.

Techno-graphic segmentation is thus, a multi-attribute framework to understand online buying behavior. It enables marketers to better target customer groups with the right products and services, using the right messages and channels to reach them. Organizations need answers to questions like who visit their website and what is the demographic and psychographic profile of such visitors? Further, they also need to understand what kind of customized offerings or payment schemes they need to offer to customers.

Activity 10.1

New Generation Apparel is an online apparel store that primarily targets high income group persons. The online shop has been very successful in targeting a certain section of high-income group persons who are technology savvy. The online store however wants to expand its market and reach out to high-income group persons, who are technology pessimists. Work out a strategy to target customers who fall under the segments, hand- shakers and traditionalists.

10.6 Technology as a Strategy to Improve Customer Service

Good customer service will be one of the important metrics by which any service will be evaluated. Effective customer service results in satisfied and loyal customers and repeat business as well. Technology has changed the way customers are serviced and has raised the expectations of customers. Add on services that gave service companies a competitive advantage have become a part of expected customer service. It is often said front office employees play an important role when it comes to service excellence.

However, no matter how well trained and courteous these professionals may be, they cannot deliver service with speed and efficiency if they are not backed by technological tools and systems. Technology has enabled enhanced customer service in the following ways.

New technology facilitates online transactions: Many companies are expanding their website to facilitate online transactions and payment as well. Online banking facilities give customers the freedom to manage their bank account online, at a time convenient to them, without the hassles of standing in long queues. It is a win-win situation for both the customer and the service company because the latter too, is able to cut down transaction and customer service cost.

Customer relationship software: CRM¹¹ software helps organizations to better manage customer relationships. Business analytics is used to study historic data (past accumulated data of transactions of the customers with the company) and based on the insights gained on customers: their needs could be better understood. CRM, thus connects a business across sales, marketing and customer service.

Example: CRM @ PhonePe

PhonePe has over 300 million users. Backed by Flipkart, the valuation of PhonePe is estimated to be \$7 billion, making it the 2nd largest unicorn after Paytm as of 2022. PhonePe is targeting higher payment value stores like lifestyle and consumer electronics for developing its business. It launched 'PhonePe for Business' app as a CRM solution. PhonePe made a couple of smart moves with AI and ML. The ML solution helps analyse user behavior and offers personalization after analyzing their buying habits using filters. These personalized offers using CRM have helped in higher conversions and build better customer relationships.

For details, check out <https://indiaai.gov.in/article/phonepe-transforms-the-online-payment-experience-with-ml> (accessed on 31/5/22).

Live chat and instant messaging are used to address customer service issues and increase customer responsiveness. Instant messaging is considered as a better alternative sometimes because written messages are often clearer than verbal communication.

¹¹ Customer Relationship Management

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New technology is affordable: Even small businesses can build customer relationship and loyalty through simple cost effective ways. Through E-mails and websites, service companies can keep customers posted on latest developments and changes. Consumers can be informed about new product launches, events, campaigns and contests. Websites also help consumers to access information at a time that is convenient for them. Buyers can share feedback, lodge complaints through web submission forms and post queries.

Check Your Progress - 1

1. Which of the following is referred as the plan for differentiating the firm from its competitors?
 - a. Public relations
 - b. Communication mix
 - c. Positioning strategy
 - d. Target marketing
 - e. Promotion mix
2. Which of these is not an advantage of E-Marketing?
 - a. One-to One engagement of customer
 - b. Affordable and cost effective
 - c. Reaches widespread audience
 - d. Customers can touch and feel the product
 - e. Easy and convenient
3. Which of the following is not a type of digital marketing activity?
 - a. Marketing through web sites
 - b. Social media marketing
 - c. Viral marketing
 - d. Print advertising
 - e. Sending e-mails
4. According to Forester Techno-graphics, which of the following customer types adopt new technology before others and are the biggest spenders on technology?
 - a. Mouse Potatoes
 - b. Techno Strivers
 - c. New Age Nurterers
 - d. Fast Forwards
 - e. Hand Shakers

5. Which of the following customer types under techno-graphic segmentation are dedicated to interactive entertainment and are willing to spend on technotainment?
 - a. Mouse Potatoes
 - b. Techno Strivers
 - c. New Age Nurterers
 - d. Fast Forwards
 - e. Hand Shakers
 6. In which of the following customer types (under techno-graphic segmentation) should a company emphasize advanced technological features?
 - a. Mouse Potatoes
 - b. Techno Strivers
 - c. New Age Nurterers
 - d. Fast Forwards
 - e. Hand Shakers
-

10.7 Impact of Technology on Different Types of Service Sectors

Change in technological environment has become the order of the day and companies have come to realize that there is no choice but, to adapt. While improvements in information technologies are taking place at a very rapid pace, the cost of communication is coming down. Entry of competitors with the new models is disrupting and threatening the market position of existing players. Very often mainstream companies are caught unawares. Digital revolution has impacted every industry in the service sector. This section aims at enabling insights on the magnitude and nature of impact caused by changes in the technological environment on various sectors like banking, travel, hospitality and entertainment, education and transportation and supply chain to list a few.

10.7.1 Education

A range of technologies that has swept the world of education is creating both opportunities and challenges for the educators.

The following are the trends that can be observed:

- Higher educational institutions are increasingly adopting technology such as 'Learning Systems Management (LMS)' to facilitate communication and sharing of knowledge.
- Students have greater access to rich multimedia content.
- Students and professionals are also using social networking tools for knowledge and professional development as well.
- Globally, there is growing interest for digital games as a tool for personalized learning.

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Schools and colleges in urban areas are upgrading their technological infrastructure and this has resulted in a digital divide, based mostly on the quality of technology infrastructure. Most educators take pride in using new technology to enhance student participation and understanding in classroom sessions.

The concept of MOOC (Massive Open Online Courses) is a latest development in distance education. In addition to traditional teaching materials and videos, MOOC provides interactive user forums to create a community of teachers and students. Many leading universities like Harvard and Stanford are offering programs under MOOC. The student dropout rate is found to be high for MOOC. Also, it can be accessed by a population spread in a wide geographical area and is also highly affordable. Hence, MOOC could be potential service product that many universities may offer in the future.

10.7.2 Telecommunication

Telecommunication sector has witnessed robust growth in India since mid-1990s, as a result of the reforms (liberalization, privatization and globalization) initiated by the Government of India.

The following are the discernible trends that industry observers have witnessed in the Telecom sector.

- Robust growth in connectivity due to affluence in the Indian economy
- Strong 4G and 5G ecosystems built by Telecom companies
- Popularity of social media that has captivated the minds of the present generation
- A sudden spurt in the demand for smartphones
- Continuing innovation in services and mobile gadgets
- Security concerns and challenges that use of new technology poses

Telecommunication enables businesses to communicate effectively with customers. Thus, paving way for higher standards of customer service.

10.7.3 Travel and Hospitality Industry

In the travel and hospitality industry, service organizations are increasingly using digital innovation and social media to engage customers and promote brand loyalty. Organizations are deploying analytics tools to understand customer choice and likings and use this understanding to differentiate their services.

For consumers, new technology is really changing the way they plan trips. Tourists, checkout websites like Trip Adviser and Wander, fly for guidance and recommendation, while planning their travel and the paperback guide books that the yesteryear traveler used to carry is not relevant anymore. Landing in a totally new destination, finding a hotel room that suits one's budget is just a click away.

Similarly, online reviews for restaurants and hotels enable tourists to select a place of their choice with a few clicks in their smartphones. Booking train tickets, hotel rooms, flight tickets can be done online. With increasing internet accessibility, Travel agencies and Airlines are resorting to tech savvy modes to reach out to their customers.

In India, both the Central and the State Governments and the various ministries under them have understood the power of Social media and are extensively using them in their promotional campaigns. Kerala Tourism Board released an iPhone and an iPad app for international mobile tourism audience to market Kerala as a tourism destination. After clicking on the application, the potential tourist is directed to ‘Your moment is waiting ...’, a video, that showcases God’s own country as a destination for wellness and cultural experiences and a must visit tourist location.

The Incredible India Campaign

The Incredible India Campaign aimed at changing the attitude of Indian citizens when it came to interacting with tourists. The key focus of the campaign was its television commercials (TVCs). The TVCs were uploaded as videos in the social media, thereby, helping it go viral. The campaign was targeted at the key stakeholders who came in direct contact with the tourists such as taxi drivers, tourist guides, operators, immigration officers, tourist police, etc. Celebrities such as Aamir Khan were roped in and the commercials were telecast during international events such as Oscars, Grammy Awards and BAFTA Awards. The campaign bagged The Grand Prix Award CIIFFT in Vienna, Austria and also won awards in Berlin, Poland, Romania, France, Czech Republic, Croatia and Portugal.

Social media has truly revolutionized the way service organizations manage their promotion and communication. The best part about social media is that it allows a company to receive feedback. If a campaign is truly remarkable, the company will know about it, because it would get shared by customers, thus increasing the reach of the campaign.

Service organizations are also conducting contests through Social media to promote their services. The contests are being conducted to unleash the creativity of customers to generate content (User-Generated Content) in a fun way. The company benefits by getting the customers involved in the campaign. Every time the customer shares the User-Generated Content created and likes similar such content, it serves as an indirect endorsement of the brand.

10.7.4 Entertainment Industry

Technology has brought about sweeping changes in the entertainment industry as well. Consumers now have more entertainment options. It is a challenge for players in this industry to keep their customers engaged and loyal. The advent of

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the cable TV brought about a sudden increase in the number of TV channels, resulting in fragmentation of viewership. Microsoft's 'X-box' and Nintendo's 'Wii' have captivated the minds of teenagers. Now, with new smartphone applications, games can be played anywhere. Movies like Street Dancer and Dumbo (both released in 2019) that used 3-D projection techniques enthralled movie audiences and have redefined the way movies are made. The entertainment business has faced its share of challenges due to pirated CDs. The CD sales used to bring revenues to music companies in the past. But, when Napster made free downloads of songs possible, CD sales plummeted. Many players in the entertainment industry are yet to recover from the dip in sales on account of such problems posed by abuse of technology.

10.7.5 Banking Industry

Traditionally, banks were in the business of mobilizing savings and facilitating borrowings. Changes in the macro environment (technological, regulatory and competitive environment) are compelling banks to widen their financial focus to include securities investment and insurance services as well. New technology has facilitated better information processing. Now, modern banks are information processors as well. Imaging technology, Electronic Data Interchange (EDI), Smart cards (through internet) are facilitating better processing of information. The resultant benefits to the customers are tremendous.

Technology has presented bank customers with the following benefits:

- **Data aggregation:** Technology has helped banks to consolidate and integrate all of a customer's data in a single data base, thus reducing storage and retrieval costs for the bank. Customers can get all their banking work done in one counter.
- **Anytime banking:** Through extensive installation of ATMs, modern banks offer to their customers the facility of 'any time' access to their money.
- The debit and credit card facilities that facilitate cashless transactions have truly revolutionized the banking world.
- **Tele-banking:** Through the 24-hour phone banking services, customers can make inquiries regarding balances and transactions in their account.
- Electronic data interchange has enabled customers to make money transfers and payments without human interface.
- **Virtual banking or direct banking:** The power of technology facilitates virtual transactions seamlessly and effortlessly. Using their personal computer, the customers can check their account balance, status of cheque issued and make payment to third parties.
- With the advent of smartphones, **mobile banking** has become popular among customers.

Example: Mobile Banking @ SBI

SBI is leading the digital transformation drive to serve an increasingly digital India. The digital payments landscape in India is evolving at an accelerated rate, and SBI is playing an active role in transforming India through the digitalization of the economy. SBI garnered major market share across multiple digital channels through its flagship digital mobile platform, YONO. Through YONO it is delivering cutting-edge digital services to millions of retail customers. They are increasingly choosing to bank with it online, and YONO is seamlessly connecting it with them. As of 31st March 2020, YONO set a new record with 46+ million downloads and 21+ million registered users.

For details, check out <https://sbi.co.in/corporate/AR1920/technology.html> (accessed on 31/5/22).

The developments in technology are creating both opportunities and threats to the banking industry. If technology is user friendly, it can be used to harness the huge population that is left out. This by itself would create huge growth opportunities for banks. Thus, banks in India on the one hand should drive growth by reaching out to rural customers. While using technology to leverage growth, banks must also simultaneously ensure that technology is user friendly and at the same time it cuts cost and adds value to the customer.

10.7.6 Transportation and Logistics

Delivering goods on time without damage at least cost, results in customer satisfaction in transportation and logistics business. Information Technology plays a major role in each of these areas. Many courier companies and companies in the transportation and logistics business are fast realizing that they are in the business of information processing. Emerging technologies powered with digital capabilities help companies in this business to manage the complexities of multi-national logistics, multi-modal transport and just-in-time delivery schedules.

With the advent of e-commerce, many travel and logistics companies are also positioning themselves as logistics providers for e-commerce businesses. In fact, many leading E-com players like Amazon and Flipkart are in the transportation and logistics business.

10.8 Impact of New Technology on Distribution of Services

The internet is an excellent medium to communicate, promote and distribute goods and services to customers. In other words, it facilitates and enables business transactions. Consumers may view e-commerce as a retail medium that facilitates buying and selling of goods. However, in reality e-commerce is also used to facilitate and execute a number of pre-sale and post-sale activities. Applegate et al (2001) identify three classes of e-commerce applications: 'Consumer to Business, Business to Business and Intra-organizational.' 'Most businesses use websites to direct a company's marketing messages to customers. Intranet is used

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to disseminate information throughout the company. Extranet which facilitates Business to Business applications helps strengthen relationship with existing customers and reach out to new customers as well.’

10.8.1 E-Commerce

Valery Zwass (1992) defined E-commerce as:

“... The sharing of business information, maintaining business relationships, and the conducting of business transactions by means of telecommunications networks.”

According to experts Daniel Minoli and Emma Minoli: “Electronic commerce is the symbiotic integration of communications, data management and security capabilities to allow business applications within different organizations to automatically exchange information related to the sale of goods and services.”

E-commerce typically facilitates electronic presentation of information about company and goods and services offered. Electronic publishing of advertisements, product information keep customers posted on service offerings. Customers in turn can make inquiries and complaints and in return receive e-mails as replies to their queries. E-commerce sites support customer service. Further, E-commerce sites enable complete handling of the transaction by facilitating order taking, bill presentation and online payment. Internet Commerce is about businesses using the network to achieve business goals. Many businesses have used E-commerce (Online retail stores like Amazon, Flipkart), online auction (E-Bay) as a powerful tool to engage and service customers, increase revenues and build corporate image.

Example: E-Commerce Market Booming in India

The Indian e-commerce market is expected to grow by 21.5% and hit \$74.8 billion in 2022, according to GlobalData, a data and analytics company. E-commerce has transformed the way consumers shop in India in the past few years, supported by an increase in internet and smartphone penetration, a rise in digital literacy, and the government’s digital push. The rise in ecommerce has also boosted electronic payments in India. To support non-cash payments, Flipkart introduced quick response (QR) code-based payments for pay-on-delivery shipments in June 2021, helping consumers switch from cash to digital payments through the Unified Payments Interface (UPI). Organizations such as Amazon, Flipkart, Goibibo, Ola, Zomato, and Ixigo have employed voice assistants for assisting customers with their queries, thereby improving customers’ satisfaction.

For details, check out <https://economictimes.indiatimes.com/tech/technology/indias-ecommerce-market-to-grow-by-21-5-in-2022/globaldata/articleshow/89038696.cms> (accessed on 31/5/22).

Advantages of E-commerce:

Advantages of E-commerce include:

- Facilitates easy buying and selling of products. Easy to find products
- Enables buying and selling of products and services 24/7
- Businesses can reach customers in any geographic location
- Easy to manage
- Facilitates better servicing of customers
- Does not require a brick and mortar set-up, and hence low cost
- Easy for customers to select products of their choice. Comparing of prices and product features facilitated to make informed choice

Disadvantages:

Disadvantages of E-commerce include:

- It is very easy to open a website and start a business. Hence, consumers may easily fall prey and lose money by reposing faith in businesses which are sham.
- While websites make tall claims of product quality, there is no guarantee till the product is delivered.
- The processes that ensure and guarantee performance need to be fool proof. Any snag or hold-up could result in loss to the customer.
- Customers may inadvertently give more information about themselves, than required. This may not be desirable.
- There is a huge risk that an E-commerce site could be attacked by hackers.

10.8.2 F-Commerce

F-Commerce or Facebook Commerce enables businesses to publish and post E-Commerce content and store-front sites within Facebook social-networking site. In other words, F-Commerce enables buying and selling of goods and services through Facebook.

The Reach of Facebook can be understood from the Facebook statistics: There are over 2.38 billion monthly active Facebook users as of March 2019.

The following are the benefits of F-Com:

- Helps build clientele
- Helps businesses to comprehend what customers feel about their products by analyzing the relevant conversations between customer Helps even a small company to introduce its brand to customers at a very low cost
- Promotes valuable content to online consumers

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Amway India has been a top performer thanks to the effective use of Facebook by its dealers. The company uses its Facebook page to increase brand awareness, favorability, purchase intention and brand loyalty. The company has given guidelines to consumers and independent business owners (Amway dealers) to effectively use Amway's Facebook page and other social media vehicles.

10.8.3 M-Commerce

The delivery of E-Commerce facility in a mobile phone through wireless mode is known as M-Commerce. It is estimated that 70%¹² of web traffic is on mobile phones and that 80% of smart phone owners are more likely to purchase from a mobile app or a mobile site. Indians¹³ spend at least 3 hours a day on smart phones. It is natural that advertising would gravitate to those spaces where customers spend most of the time. Companies too have increased their mobile spending budget to reach out to customers.

Selling and distribution through mobile phones

Mobile money transfer enables consumers and businesses to transfer money faster, more effectively and more securely across countries and continents. Mobile money transfer is facilitated through bank accounts. Money transfer to friends and relatives residing in rural areas is possible through Department of Post, India. Through Indian Railways' IRCTC website, train tickets are purchased using mobile phones and tickets are delivered to mobile. Service marketers distribute coupons, discount vouchers and loyalty cards through mobiles. Wall paper, mobile games and caller tunes are sold through mobile phones. Services companies disseminate and sell information like news, cricket score updates, stock/share price updates etc. through mobile phones. Starbucks' is a company that has excelled in mobile marketing. The coffee chain has incorporated several mobile marketing features into its mobile app, Starbucks' mobile app doubles up as a loyalty card as well. Customers can manage balances and reload money and pay for purchases. Customers can also create customized drinks of their choice by exploring all of Starbucks' products.

10.9 Customer Analytics and Role of IT in Customer Acquisition and Retention

First and foremost marketers should understand customer needs and desires to acquire new customers and also retain existing customers. Having understood the need or want, service marketers then need to engage with customers. Customer Analytics has become an important tool for achieve both the objectives of customer acquisition and retention.

¹² <https://www.thinkwithgoogle.com/consumer-insights/shopping-occasion-experiences/>

¹³ <https://economictimes.indiatimes.com/magazines/panache/indians-spend-roughly-3-hours-a-day-on-smartphones-but-are-they-paying-big-bucks-for-apps/articleshow/62866875.cms?from=mdr>

Customer data is acquired from various sources and analysis and interpretation of data would help marketers identify products/services that would fetch high sales and revenue of the firm. Thus customer analytics provides insights on which services, marketers need to focus upon to optimize their revenue.

Service marketers can also predict revenue that they can expect to get from different customer groups. Thus, customer analytics provides an understanding of customer profitability. Once again marketers can focus on those customer groups which bring greater revenue and through this strategy maximize customer profitability.

Predictive analysis enables marketers to understand current customer trends and this understanding would help them to plan marketing approaches to reach out to various customer groups. To begin with service marketers must collect customer data from various sources and then analyse and interpret them so that they get a 360° view of customers. Through this customer insight gained marketers can get reliable data on various aspects like: What services do customers purchase, how often they purchase, what issues customers face while making purchases etc.

From customer data gathered service marketers can also gain insights on aspects like what issues customers face while using the service and whether or not customers are using the support services of the company. Marketers can identify profitable and important customers and offer loyalty programs to make them the service company's regular customers. Thus customer analytics helps marketers in customer acquisition and retention.

Example: Google Creating a New Era for Digital Customer Acquisition

Google handles 3.5 bn daily searches, with Chrome accounting for 60% of global browser users as of May 2021. Customer Analytics using Google's Business Messaging (GBM) through chrome and Google web searches helps companies tell what their customers exactly want, offering consumers the chance for immediate interactions with their brand or to view their products via GBM. It is a very strong initial experience for a customer, one that can ensure a long-lasting and loyal relationship. So Google is creating a new era for Digital Customer Acquisition.

For details, check out <https://customerthink.com/how-apple-and-google-are-creating-a-new-era-for-digital-customer-acquisition/> (accessed on 31/5/22)

10.10 Technology: A Double-Edged Sword

Technology enhances the quality of engagement with customers and increases the number of channels through which businesses could engage with customers. All businesses know that outstanding customer service gives them a competitive advantage and understanding. Meeting customer expectations could help businesses in delivering outstanding customer service. At the same time,

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businesses must also be conscious of the fact that technology could only complement a business in efficiently servicing its customer. Investment in technology is expensive and obsolescence of technology is an added problem. Hence, service organizations have to ensure that technology as a strategy is integrated to the overall corporate strategy and that technology aids in delivering outstanding service to customers.

Service organizations must be equally conscious and aware of the obstacles posed by technology. Too much of technology might take away the personal relationship that employees have with the company's customers. In a typical service organization, technology could totally eliminate the face-to-face interactions amongst colleagues. This could reduce the workplace relationships. Also, employees do not need to interact with customers as they did earlier and this disconnect with customers is not in the interest of the organization.

Self-Service Technologies

Across the globe, companies are racing to introduce technology that enables their customers to access services on their own. Self-Service Technologies (SSTs) allow service customers to produce services which are independent of direct involvement of front line service employees. Adoption of SSTs as a business phenomena has emerged in the past few decades, especially in the service sector. Service businesses are designing self-service options for customers like kiosks and websites to minimize cost and errors caused due to human interaction i.e., an employee interaction with a customer. Self-service technologies also provide companies with ways to improve productivity and boost profitability. Companies have a challenge with self-service technologies, as they not only have to implement the technological and human systems to provide SSTs, but also, create customer awareness through the right communication that enhances the usage of self-service technologies. Since services are intangible due to which it is already difficult for service marketers to promote services; the implementation of SSTs further adds challenges for the service marketer to reduce customer skepticism towards SSTs. While the implementation of self-service technologies is essential it is also of important for firms to understand the clear advantages and disadvantages of introducing technology enabled self-service options for customers. Companies are faced with questions like: Do customers really prefer self-service options? What factors would motivate customers to use such options? Is the firm itself equipped enough to implement self-service technologies?

Benefits of Self-Service Technologies

1. **Efficient usage of Resources-** At an airport if more customers check-in through kiosks, get flight details through a mobile application or collect their own boarding pass, more staff time can be saved and used for other important tasks. So service firms save a lot on resources and cut costs with the use of such technologies.

2. **Providing Accurate service-** In most self-service situations, customers themselves access and provide needed information, which reduces errors of data transfer and improves accuracy of the service provided. A customer filling his/her details on a website would be much more accurate as compared to the customer telling a front line employee detailed information which is needed. In this case the employee might commit some error which the customer may not notice for example misspelling the customer name.
3. **Convenience to customers-** A service firm can become more convenient for a customer by providing the customer with a self-service option which the customer can access at his or her comfort and convenience. For example several banking services can be delivered to the customer through an ATM (Automated Teller Machine) which is more convenient for the customer as compared to stepping into a bank branch.
4. **Personalized Service-** A self-service system ensures that the customer is referred by his/her name, the system also remembers the past services utilized by the customer and based on this data, better services can be suggested to the customer. Customers in such a scenario would see that the company is providing them individualized attention and treating them as valued customers.
5. **Helps to attract customers-** There can be customers who want efficiency, responsiveness without the hassle of human interaction. A service firm can attract such customers by providing self-service option to them. The service can now look at a totally different segment of customers to market its services.
6. **Round-the-clock Service-** Service firms like airlines can provide websites or mobile applications to travellers where they can access service like accessing information on travel routes, flight details and bookings 24 x 7, now the firm is always available to the customer.

Organizations understanding the benefits of self-service technologies would like to implement this option for its customers, to provide some of the above mentioned benefits. However service firms must understand that poorly implemented self-service technologies may do more harm to the company than benefit. If the self-service technology like a website or a touchscreen counter does not function properly, it may cause customer dissatisfaction and drive customers away to the competitors. So, companies should have foresight, careful planning and an understanding of customer needs before adopting such technologies.

Challenges of Self-Service Technologies

Implementation of self-service technologies appears to be in trend as every firm has begun to provide self-service options to customers, however companies

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should consider a few challenges which may appear as a result of self-service technologies. The challenges are listed below.

1. **Customer Perception of Trust-** During a problem or issue a customer would like to interact with an employee over the phone rather than an interaction with no human contact, for example a ticket generated for your query through a website. The customer perception of trustworthy service may be embedded in customers' satisfaction with employee interaction and so in certain situations the customer may not prefer self-service option.
2. **Customer Education-** Service providers would have work on strategies to improve customer participation in self-service technologies by ensuring that the customer knows how to use such technologies like web portal or kiosks. Also service firms should have an objective to reduce customer apprehensions towards using self-service options. For example the touchscreen at a restaurant or movie theatre should be easy to use and must have clear instructions for the customers.
3. **Security and Privacy Concerns-** Sensitive customer related information is stored in a computer in most self-service situations. So, the system must have strong security features so that the customer feels safe to provide the necessary information to avail the service.
4. **Maintenance can be difficult-** Self-service options like kiosks or touch screens are often subject to vandalism of the general public, who may not know how to use such devices properly, this may cause frequent breakdowns and the firm has to spend money just to keep it up and running.
5. **Less appealing for certain customer groups-** Customers may be those who are illiterate or are faced with some physical disabilities or are elderly people who are not comfortable using touchscreens or computers, for such segment of customers using self-service technologies may not be an option.
6. **Upfront Investment-** Service firms incorporating self-service technologies would have to invest some resources in terms of money, time and effort to introduce self service technologies. For example a small service firm might have to upgrade its information technology infrastructure which requires considerable investment.

Example: Customer Engagement through Technology by Facebook Vs Apple

Facebook's business model is based on selling advertising, powered by the wealth of data they are able to collect from their 2.8 bn monthly active users, data that Apple users can decide to opt-out of sharing. That's a lot of potential customers who Facebook advertisers could find it difficult to engage.

Contd....

The tech giant is arguing it could cripple small businesses, struggling following a tough 12 months. Whereas its competitor Apple is focusing on Click-to-Messenger advertisements which keeps the entire customer relationship within a private messaging channel rather than relying on app downloads or directing to a website. Messenger creates immediate interactions and the chance to re-engage.

For details, check out <https://customerthink.com/how-apple-and-google-are-creating-a-new-era-for-digital-customer-acquisition/> (accessed on 31/5/22).

Activity 10.2

You have just been appointed as the marketing head of Pavan Water Purifiers. The company only uses traditional media like television and print media to create awareness and target its customers. As a newly-joined marketing head, you are to make a presentation listing out the advantages and disadvantages of using social media marketing and mobile marketing for promotion of water purifiers. Prepare a draft presentation listing out the various points.

Check Your Progress - 2

7. E-purchasing by businesses has its own drawbacks and problems. Which of the following is the greatest barrier because of which customers hesitate to purchase online?
 - a. Security
 - b. Privacy
 - c. Cost
 - d. Lack of correct technology
 - e. Poverty
8. Through which of the following document does the Chief Information Officer (CIO) of a company, communicate the value of technology for the company and its applications to all employees?
 - a. Business technology strategy
 - b. Technology blueprint
 - c. Technology plan
 - d. Annual report of a company
 - e. Press release

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9. Which of the following is not an example of Business to Consumer (B to C) e-commerce?
 - a. Amazon.com
 - b. E-bay.com
 - c. Dell.com
 - d. Salesforce.com
 - e. Flipkart.com
10. Which of the following is an online video hosting service that allows people to upload videos?
 - a. Twitter
 - b. YouTube
 - c. Orkut
 - d. Linked.in
 - e. Facebook

10.11 Summary

- Digitization has revolutionized the way service organizations communicate and serve their customers. New trends are emerging in the service industry. Disruptive new entrants are continuously emerging and their products and services are embraced by early adopters. Very soon the innovative product/service that was considered radical is soon adopted by a vast majority of customers. In this context, digital capabilities matter. They determine whether or not companies would lose or compete with advantage and move ahead in the race.
- Technographic segmentation helps marketers by providing an understanding of consumers and consumer markets by providing them with the required customizable data for analysis and action.
- The magnitude and nature of impact caused by changes in the technological environment on various sectors like banking, travel, hospitality and entertainment, education and transportation is tremendous. The organizations belonging to these sectors are rapidly upgrading technology to meet customer expectations.
- The internet is an excellent medium to communicate, promote and distribute goods and services to customers. It facilitates and enables business transactions.
- Using business analytics to make meaning out of big data helps businesses in understanding customer trends and expectations. Using new technology to complement and support servicing of customers is inevitable to delivering outstanding service. Outstanding service alone can give a business competitive advantage and intelligent deployment of technology can help a business achieve that objective.

10.12 Glossary

Blogs: Internet sites that contain a series of entries or 'posts' about topics of interest to the author, much like an online 'diary'.

Bonus Packs: Bonus packs are promotional packs that offer extra quantity of the product to consumers at the same price. E.g.: 20% extra free, buy 2 get 1.

Coupon Sites: Websites that offer discount coupons for goods, services and events.

Customer Review Sites: Websites that feature customer reviews of goods and services.

Data Management and Analytics: Using data collected from customer to analyze their purchase trends, needs and buying habits.

Facebook: A social networking site that allows one to interact, chat with acquaintances and post photos and videos. Businesses can also promote their products/service by using it to their advantage.

Insight-Driven Marketing: Gaining insights into your business from customer data. Helps in effective target marketing.

Location Based Marketing Sites: Websites that deliver targeted marketing messages to customers in particular locations, through mobile devices such as smartphones and tablets.

Marketing Automation: Streamlining and automating business processes to improve efficiency. Helps reduce costs.

Online Photo Sharing Services: Websites that allow users to store, organize and share their photo albums.

Twitter: A 'micro-blogging' service that allows one to send and receive short messages.

Workforce Effectiveness: Encouraging employees to adopt new ways of improving customer treatment by providing tools and training to deliver better service.

YouTube: An online video-hosting service that lets people share their videos.

10.13 Self-Assessment Test

1. What are the three categories of Forrester's technographic scheme classified on the basis of high income and high technology attitude?
2. List five ways through which you can use new technology to enhance customer service in banks.
3. How do live chat and instant messaging help in enhancing customer service?
4. List five attributes of M-Commerce.

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5. List four limitations of new technology.
6. What is User Generated Content? How do service businesses leverage on it to promote their services?
7. Discuss the strategies of Microsoft and Nintendo to overcome the problem of piracy in the gaming industry.
8. What are the challenges faced by mainstream banks in the current scenario?

10.14 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.

10.15 Answers to Check Your Progress Questions

1. (c) Positioning strategy

Positioning strategy helps a firm to carve out a place in the minds of the consumers. Through differentiation from competitors, the positioning plank is created.

2. (d) Customers can touch and feel the product

E-Marketing has all the advantages listed in options 'a', 'b', 'c' and 'e'. However, customers get to see, touch and feel the tangible product only in brick and mortar stores.

3. (d) Print advertising

Print advertising is the only option that is not associated with digital media.

4. (d) Fast Forwarders

Fast Forwarders are high income group, career-oriented persons with high technology optimism. Hence, they ought to be high spenders.

5. (a) Mouse Potatoes

Mouse Potatoes are high income group persons with a strong penchant for both technology and entertainment. Hence, they spend more on technotainment.

6. (d) Fast Forwards

Laggards and late majority adopters of technology groups consist of people who are averse of technology. Hence, highlighting technology features to them would not be a good idea.

7. (a) Security

The greatest barrier to E-purchasing is apprehensions that consumers have in using credit cards. This fear is due to the security concerns.

8. (a) Business Technology Strategy

The Chief Information Officer of a company communicates the value of IT, the direction and its application to all employees through a document called Business Technology Strategy.

9. (d) Salesforce.com

All other options, except option 'd' are examples of B to C e-commerce. Salesforce.com is an American cloud-based software company that serves businesses.

10. (b) YouTube

YouTube is a video hosting site that allows subscribers to upload and share videos.

Services Marketing

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