

Services Marketing

Block

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SERVICES AND THE MARKETING MIX – I

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Ref. No. SM-SLM-IFHE – 072022 B3

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BLOCK 3: SERVICES AND THE MARKETING MIX – I

Service organizations use a combination of an extended mix of seven elements (traditional product mix of product, price, place, promotion and people, process and physical evidence) to communicate the organizational and brand message to customers. The third block of the course on Services Marketing, which has four units (11-14) deals with Part – I of the services marketing mix. The block contains four units.

The eleventh unit, *The Marketing Mix Elements*, explains the marketing mix in traditional marketing. It then discusses how the four Ps of marketing products are inadequate for marketing services. The unit ends with a discussion on the expanded marketing mix for services.

The solution to the need or want of a consumer is a product/service that effectively fulfills the customer need. The twelfth unit, *Product: Packaging the Service*, discusses service product levels, and service product decisions. The unit explains the importance of branding in services. It then discusses the various categories of new service development and the new service development process, and ends by discussing the product life cycle.

Marketing mix element ‘Pricing’ is very important for a company as price generates revenue and determines profitability. The thirteenth unit, *Pricing Services*, provides an idea about the key characteristics of pricing in services. The unit discusses the pricing objectives and the various approaches to the pricing of services. It then discusses how perceived value can be incorporated with service pricing. The unit also explains the value strategies in the pricing of services, and finally ends with a discussion on the issues involved in the pricing of services.

Promotion deals with all activities undertaken to communicate the brand message and value to customers. It helps in generating sales and hence it is important. The fourteenth unit, *Promotion and Communication of Services*, discusses the importance of communication and its types. The unit talks about the communication issues for service marketers. It then explains the objectives of promotions, the elements of the promotion mix, the promotional strategies for services and the importance of Integrated Marketing Communications (IMC) along with its challenges. The unit ends with a discussion on how to design a specific service promotion and the strategies to be followed for effective promotion.

Unit 11

The Marketing Mix Elements

Structure

- 11.1 Introduction
- 11.2 Objectives
- 11.3 Marketing Mix in Traditional Marketing
- 11.4 Inadequacy of Four Ps for Marketing Services
- 11.5 Expanded Marketing Mix
- 11.6 Summary
- 11.7 Glossary
- 11.8 Self-Assessment Test
- 11.9 Suggested Readings/Reference Materials
- 11.10 Answers to Check Your Progress Questions

“The 4P’s was about “What does the marketer want to say?” while the 4C’s asks “What does the customer need to hear that the marketer can say?”

— Robert F. Lauterborn

11.1 Introduction

As has been propounded by Robert F. Lauterborn, marketing mix of 4P’s is all about what the marketer wants to say to his customers regarding physical products and for services, additional 3P’s are also required.

In the last unit of the previous block, we discussed how technology impacts the way service organizations operate and serve customers. In this unit, we shall discuss the marketing mix elements involved in services.

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

The marketing mix consists of the four Ps namely, product, price, promotion, and place. A product refers to physical goods or a service offering that is of value to

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

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

This unit will first discuss the four traditional Ps of marketing. It will then move on to discussing the inadequacy of these 4Ps in the marketing of services. Finally, it will take a look at the 7Ps, namely, product, price, promotion, place, people, process, and physical evidence in relation to services marketing.

11.2 Objectives

After studying this unit, you should be able to:

- Discuss marketing mix in traditional marketing
- Recognize the inadequacy of four Ps for marketing services
- Explain the expanded marketing mix

11.3 Marketing Mix in Traditional Marketing

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

A product's features should satisfy the needs of customers, but at the same time, it should also be attractive to the customer in terms of price, promotion, and place.

For example, if a product is not priced appropriately, then customers may not want to buy it. If a 25” flat-screen television is priced very high in the market when competitors are offering a 24” one for considerably lower price, then customers would certainly turn down this product and go in for a competitor’s product. Therefore, the way a product is priced should reflect the value it delivers, keeping the competitors’ pricing structure in mind.

Promotion helps a company create awareness and build recognition for itself and its products in the target market through advertising, sales promotions, etc. A company should choose a suitable promotional strategy that communicates its product offerings to the target market. For example, a company can advertise its products through television or the print media in cities, and use rural cinema, mobile vans and folk media (by combining education and entertainment) in rural areas. Also putting up banners in rural congregations like village markets like haats¹ gives visibility to the brand. Further, a company should take measures to avoid confusion in the minds of customers about its product offerings. Finally, a company can gain higher profits if it can choose the right place in terms of distribution channels like distributors, wholesalers, retailers, etc., to sell its products. A company should be able to identify cost-effective ways of delivering the product to the end consumer. The right combination of these four elements of the marketing mix will result in high profits.

Example: Marketing Mix @ HDFC Bank

One of India’s largest banks was HDFC Bank. In its marketing mix strategy, it offered a wide range of products, in particular for individuals and businesses. HDFC is highly priced in certain regions, while in others it is priced equally according to the competition. As of March 31, 2022, the bank had a nationwide distribution network of 6,342 branches and 18,130 ATMs in 3,188 cities/towns. HDFC also employed digital technology and other modern tools and ways to promote its brand and services, in addition to traditional marketing and promotion channels.

Source: Aditya Shastri, (2022), “Detailed Marketing Strategy Of HDFC Bank” | IIDE”, <https://iide.co/case-studies/marketing-strategy-of-hdfc-bank/#and>
<https://www.hdfcbank.com/personal/about-us/overview/who-we-are#> (accessed on 31/5/22)

11.4 Inadequacy of Four Ps for Marketing Services

The four traditional Ps of the marketing mix -- product, place, price, and promotion are adequate for marketing a product. However, they fail to cover the

¹ A haat bazaar is an open-air market conducted on a regular basis. It is venue for trade and commerce in rural areas and some towns in India. Haat market is also a venue for people to gather news and information. People engage in various social, religious and cultural conversations and activities. To sum up it is a venue for both commerce and festivity.

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following aspects, which differentiate products from services and are, therefore, important for services marketing.

- The product element involves only tangible aspects and is therefore not appropriate for services, which are basically intangible in nature. For example, the strategy used to design and launch a new motorcycle model cannot be adopted for launching a new service as a variant.
- A part of the promotion of services usually takes place at the time of consumption itself. This is not so in the case of a product. In fact, the people involved in service production handle the promotion too in most cases. For example, the way in which a waiter at a restaurant provides service to the customers is a form of promotion of the service. However, the promotion element of the traditional marketing mix does not take this difference into consideration.
- In the Indian scenario, the public sector produces most of the public utility services like rail transport, bus transport, electricity, etc. In the case of public utility services the consumer pays a subsidized price, and this means that the price aspect is viewed only from affordability perspective.
- The customers of services contribute their mental, physical and emotional inputs and play the dual role of co-producers and end consumers. The traditional marketing mix does not incorporate elements like physical settings which provide the right ambience for employee-customer engagement and enhancement of customer experiences.
- The distribution of services is different from that of products in the sense that often services are consumed at the same place where they are delivered. Let us take the case of restaurants or education. The consumption of the service takes place at the point of delivery. Since services cannot be stored like products, distribution of services is often done directly by the service provider or through franchisee mode.
- Further, consumers face difficulty in perceiving the quality standards of services prior to consumption. Marketers too face difficulty in identifying and measuring the elements of the marketing mix that facilitate delivery of quality service.

Service marketers face the multitude of the problems listed above and to help them deal with these problems the extended marketing mix which also includes people, process management, and physical evidence, (in addition to the traditional marketing mix) has been conceived. The addition of these three elements has helped in better understanding and designing marketing strategy for services better. We shall discuss all these seven Ps in detail in the next section.

Example: Inadequacy of Four Ps @ Vijay Sales

Vijay Sales operated 117 conveniently located retail showrooms across major cities of India, as of March 2022. Customers can shop 3500+ products across 11+ primary categories in a world-class ambience. It laid emphasis on physical evidence and the showrooms were aesthetically-designed. It sold multi branded air conditioners, home appliances, cameras etc. in its retail showrooms. It trained its people/customer sales executives very well to handle the queries, behave courteously. The process adopted was also customer oriented with very quick responses for their requests. The success of Vijay Sales was attributed to additional marketing mix elements - Physical Evidence, People and Process - as for services 4P's are inadequate.

Source: Mr. Nanu Gupta, 2022. "Insights", <https://www.vijaysales.com/about-us> (accessed on 31/5/22).

Check Your Progress - 1

1. Which of the following statement is false regarding the inadequacy of the four traditional Ps of the marketing mix for services?
 - a. The product element involves only tangible aspects, and is therefore, not appropriate for services, which are basically intangible in nature
 - b. Service quality can be displayed and clearly communicated to customers
 - c. In most of the services, the production and consumption take place at the same time. Therefore, the distribution channel is either absent or is very small
 - d. The dual role played by service customers as co-producers and end consumers in the production of service goes unnoticed by the four traditional Ps
 - e. 7 elements of marketing mix in the place of the traditional four is necessary for optimum service delivery
2. Identify the 3 Ps which have been added to the services marketing mix apart from the 4 Ps of the traditional marketing mix.
 - a. Place, Process, People
 - b. Physical evidence, Process, Place
 - c. People, Process, Physical evidence
 - d. People, Promotion, Physical evidence
 - e. People, Process, Physical environment

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3. Which of the following statement relating to the traditional marketing mix is not true?
 - a. The traditional marketing mix involves the 4 Ps of product, price, place, and people
 - b. The success of a product in the market depends on a marketer's ability to mix these elements in the right proportions
 - c. All the traditional elements can be used collectively as well as in isolation to develop, design, and market products/services that satisfy customers' needs
 - d. Traditional marketing mix is universal. It applies for both products and services
 - e. The traditional marketing mix applies to companies which operate on a large- scale
4. Which of the following marketing mix elements help a company create awareness and build recognition for itself and its products in the target market through advertising, etc.?
 - a. Place
 - b. Process
 - c. Promotion
 - d. Physical evidence
 - e. People
5. Which critical marketing-mix component in services marketing lays out the blueprint that defines the step-by-step tasks and the path through which the product reaches the end customer?
 - a. Place
 - b. Process
 - c. Promotion
 - d. Physical evidence
 - e. People

Activity 11.1

Kaizen Watches is a leading watch-maker in the country. To increase sales and visibility, it is planning to open its own showrooms under the brand Time & Style. To chalk out the marketing strategy, R.P. Sinha, CEO of the company, convened a meeting with the top marketing managers. During the meeting, the managers devised a marketing strategy based on the four Ps of marketing i.e., product, price, promotion, and place. However, K.V. Ram (Vice President,

Marketing) questioned their strategy saying, “Services marketing is different from product marketing. The traditional marketing mix elements are inadequate for the services marketing environment.” What inadequacies do the traditional marketing mix elements possess when it comes to services marketing?

Answer:

11.5 Expanded Marketing Mix

Given the special features of services like perishability, intangibility heterogeneity and inseparability, which distinguish them from goods, strategists and marketers, added three extra elements to the marketing mix for services. They realized that people, process and physical evidence play a greater role in the marketing of services than in the marketing of goods. In present digital era, the roles played by all seven Ps have been impacted and brought some efficient and effective changes for achieving the desired goals of the service provider.

Let us now discuss all the 7Ps of the marketing mix for services marketing.

11.5.1 Product

Service marketers have identified four levels while developing the product element of the marketing mix. The ‘core’ level endeavours to satisfy the basic and important needs of the customer. In the next step, i.e., ‘tangible’ level, the service marketer highlights the physical qualities like design, quality and packaging aspects so that customers perceive tangible cues while making purchase decisions. By building supplementary services and features around the core product, the service marketer creates the service at the ‘augmented’ level. The features or benefits that can be added and which would be of value to the customers contribute to the potential product.

The core level which constitutes the primary offering remains as the primary classification level. However, the tangible and the augmented level, which assume importance while the service is delivered to the customer can be clubbed into one. For example, the core service of a restaurant is to serve good food to the customers while the secondary service includes providing them with a good ambience, good service, on-time delivery of food, etc.

It is easy to differentiate products from one another when compared to services. For example, how can a customer differentiate between the services of two banks which offer similar schemes and interest rates? The new product development for

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

In the current era of digitization, service organizations are moving towards technology for production and consumption of services. Like, for booking a flight ticket, earlier the customer had to book it through the travel agent using telephone or personal visit and the ticket had to be collected in hard copy and carry the same at the time of travelling. But now, customers may directly book the flight through website or app and carry the soft copy of the ticket in their mobile phones. Even, they don't need to have the hard copy of the boarding pass for travelling.

11.5.2 Pricing

The pricing of services is very different from product pricing due to the unique characteristics of services. Pricing therefore assumes major importance in service marketing strategy.

Just as in the case of products, services can be differentiated based on their price. By charging a higher price, a service provider can send out signals of high service quality to his/her customers. Another differentiating factor between services and goods as far as pricing is concerned, is the cost component involved. The fixed cost is high and the variable costs are low for a service, when compared to a product. For example, the marginal cost involved in letting out a room in a hotel to a customer is negligible while the fixed cost of establishing and maintaining the hotel is high. Therefore, a major part of the price paid by the customers is directed towards covering the fixed costs of the service provider. In case of a product, a major part of the price paid by the customer goes towards the variable cost of producing that unit of the product.

Another important aspect of pricing of services is that the price of the same service can be changed depending on the demand for the service. Though this happens with some of the products which are seasonal, it is basically dependent on demand as far as services are concerned. For example, the owner of a movie theatre can increase or decrease the price of tickets depending on the demand for them. Similarly, hotel owners can raise the room tariff during the peak season and lower it during the lean season. In the current scenario of continuous technological advancement, it has become easier for service providers to find an optimum price for their services after analyzing various aspects automatically. This software based automation is always a profitable option for the company.

The charges by cab service providers like Uber and Ola are different in the morning when compared to those in the evening or night for the same distance. Because they use a software to identify the best price to be offered to the customers after analyzing the time of the day, traffic at that particular time, demand for the cab etc. This eased the job of a service provider since they are more accurate and beneficial.

11.5.3 Promotion

Service consumers experience a high level of perceived risk when compared to consumers of products because of the intangible nature of services. Service providers should aim to promote their services in order to eliminate the elements of this perceived risk. This is best achieved by spreading and promoting positive word-of-mouth, building strong brands, and providing a trial use of service for the customers. Service providers can reassure customers by clearly communicating the service message through advertising and public relations.

In the case of services, it is not possible to promote services in isolation of the service provider. Consumers will not be able to rate the intangible services without knowing who the service provider is. Therefore, promotion of the service provider becomes equally important in services. For example, a bank customer can identify and relate to a service offer in a better way when the service provider (the bank employees or the brand name) is known.

Another distinguishing factor for promotion of services is that the service personnel and other customers also participate in the promotion process. For example, when a customer visits a restaurant or an entertainment park, he/she makes an assessment of the service based on the behavior of the service personnel and the crowd there at that point in time. Therefore, attracting the right crowd and employing the right people is very important for a service provider. This provides plenty of opportunities for service providers to promote their services.

Now-a-days, digital marketing changed the promotional practices. Since the customers are spending more time on electronic gadgets like mobile phones, laptops, TV, etc., marketers felt the need of occupying some space online. In fact, digital advertising is growing all over the globe in multiple numbers. Using online platforms like YouTube, Facebook, Google, etc. marketers can easily approach the customers and convey their message. Like, appearance of video ads while online streaming, out of which some are skippable ads and some are not. Ways of sales promotion has changed, now-a-days customers are getting cashback which gets credited either to their bank account or say Amazon Pay, Ola money etc. The very popular ad campaign from Coca-Cola is about drinkable ad, where the customer gets a free coke credited to his account just by listening to some drinkable ad from Coca-Cola. Then the customer may redeem the free Coca-Cola at any of its outlets. This happened using some efficient apps on their mobile phone.

11.5.4 Place

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

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services marketing, or if at all there is one, it is very small. Further, place decisions involve the following:

- The physical location of the service provider's outlet. Banks, for example, are striving to provide ATMs to their customers at all important locations to improve accessibility to their services.
- The physical appearance and ambience of the place of service offering.
- The decision to use types of intermediaries to offer easy accessibility to the customers and improve operational efficiency of the organization. For example, the decision of a service provider to sell holiday packages either directly or through tour operators to the customers.

Technological advancement changed the service delivery mechanism as well, whereby the customers do not have to go anywhere to avail the service, they can avail it anywhere anytime. Especially in case of banking services, customers don't need to visit the bank, they can utilize all the services like transferring money, opening fixed deposit, access to bank statements, payment of electricity bills, phone bills, etc. while sitting at home, office or anywhere, using internet banking services. Similarly, for other services also, every other service provider maintains a website having all the information related to their services. For enjoying a vacation, a customer must book the tickets and hotel using websites, there is no need to visit the travel agent, go to the railway station, do a telephone booking etc. Education industry is also into conducting online classes, where again the students don't need to go to the institute.

11.5.5 People

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

- Many service organizations involve their personnel both at the point of frontline delivery and during the production process that does not involve the final consumer. Thus, the service personnel have an important role in not only designing the service, but also in delivering it.
- Many services involve consumers as co-producers in designing the service offering to suit their individual preferences. In these cases, the service personnel play an important role in helping the end consumer present his/her requirements precisely. For example, the owner of a place, either commercial or residential, desires to hire the services of an interior decorator to beautify the place. The service provider (interior decorator in this case) should help him express his/her desires and expectations clearly so that he can deliver the exact service.

- The perception of a service by a customer also depends on the other customers receiving the same service. Basically, the image of the service is largely affected by the views and characteristics of other users. For example, a hotel like Ritz Carlton has developed the image of an elite-class hotel with high-spending and high-profile visitors. Further, the behavior or performance of other consumers largely affects the service production and delivery process. Fellow consumers have the power to either degrade the service quality or elevate it. For example, when a section of the audience behaves badly at an Opera, the total experience of fellow audience is negatively affected. Similarly, when a customer behaves pleasantly in a restaurant and creates a good ambience, it enhances the experience of other customers as well.

Over the years, employees roles have changed, one of the reason being digitization. During the pandemic attack, Covid-19, some hospitals in India came up with the idea of robots to roam around in the hospital and provide with necessary medicines to Covid patients, as the disease is quite infectious; doctors found this a very helpful mechanism. Similarly, a European start-up came up with a group of robots to deliver food at George Mason University, Virginia, US. All this is being done with the usage of artificial intelligence. This sphere of knowledge is expanding but still the question to ponder about is whether these robots will be able to work and think like human beings without error or not?

11.5.6 Process

The production and delivery process in the manufacturing sector is easier than in the services sector. Marketers of services are often confused, as there is little difference between marketing and operations management in services. This is because the production, delivery and consumption of services take place simultaneously. For example, a passenger of an airline is required to check in, get a boarding pass, and then go for the security check before boarding the plane. All these activities form part of operations as well as marketing.

Customer service encounters have an impact on the quality of service delivered by the organization. A service encounter is the actual time period during which an interaction takes place between the service provider and the customer. Among all the service encounters, a few are very important for completing the service delivery process on a successful note. These particular interactions are named “critical incidents” and are directly responsible for customer satisfaction or dissatisfaction. These feelings of satisfaction or dissatisfaction may result either from their interaction with the service personnel or from the interaction with the equipment or production processes.

Over the years, some service organizations have mechanized their service processes to reduce the element of human judgment and error in service delivery. For example, banks have introduced ATMs to offer convenience to customers

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and also reduce the human element in the service delivery process. This mechanization helps reduce labor costs. Organizations have also started involving customers in the production process to reduce costs. Though some customers' expectations are not met, others are ready to get involved in the service production activity for lower prices. For example, a hotel offering self-service can save on labor costs and can pass on the savings to the customers in the form of lower prices.

Further, service organizations have identified customer segments that do not want to take the co-production responsibilities. They are even ready to pay higher prices. For example, some customers are ready to pay an additional amount as commission to portfolio managers for managing their investment portfolio.

Technological development eased the process of delivering the services to end-customers. It helped in reducing the number of steps in the process of service delivery. At restaurants, when the waiter comes to collect the order from the customer, they make a note of the order on an electronic gadget, which looks like a notepad. Once the waiter receives the order, he immediately lets the chef know about the same using the notepad in his hand. This happens automatically. For banking services, all the processes like withdrawing money, depositing money, transferring money, investing money, etc. is done using technology. Home delivery of food is also a very evident example to understand the role of technology in the process of services. Customers may open the app, check the availability of food and the price. Once the customer made the order, he can track the order as well. Tracking starts with order placement, then delivery person reaches the restaurant to collect the order, and then deliver it to the end-customer. Customer may make the payment of the product delivered using various options.

11.5.7 Physical Evidence

As discussed earlier, the perceived risk experienced by service customers is much higher than that of product customers, as the former is not in a position to rate a particular service until it is consumed. Therefore, service providers should incorporate tangible elements in their service offering to provide cues to customers while making purchase decisions. The tangible evidence can take the form of brochures, booklets, TV commercials giving details of a holiday destination, pleasant and courteous behavior of employees in a bank, the location and serviscape of a food outlet, etc.

In present digital era, the service providers need not have a physical shop and decorate it. They can simply have a functioning website and app, which serves the purpose. Therefore, service providers must decorate the website and user interface must be effortless and gives a smooth experience to the customers. How does the website look like, how about the ATM machine etc.? How easy is it to identify a relevant option on a website?

Example: Physical Evidence @ Rolls-Royce

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

Source: ENTMAG, (May 29, 2021), "The New World of Luxury: Rolls-Royce Presents Film of New Showroom Visual Identity", <https://www.entmag.org/luxe-motoring/2021/5/26/the-new-world-of-luxury-rolls-royce-presents-film-of-new-showroom-visual-identity> (accessed on 1/6/22)

Check Your Progress - 2

6. Which of the product levels given in the following options (in the same order) satisfies the primary need, manages product's physical appearance and provides supplementary services?
 - a. Tangible; augmented; core
 - b. Core; augmented; tangible
 - c. Tangible; core; augmented
 - d. Augmented; tangible; core
 - e. Core; tangible; augmented
7. A brochure showing the details of a holiday destination is an example of which of the following elements of services marketing mix?
 - a. Place
 - b. Physical evidence
 - c. Promotion
 - d. Process
 - e. Product
8. Which of the following refers to the actual time period during which an interaction takes place between the service provider and the customer?
 - a. Service encounter
 - b. Zone of tolerance
 - c. High contact service
 - d. Implicit service promise
 - e. Explicit service promise

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9. Among all the service encounters, a few are very important for completing the service delivery process on a successful note. Which of the following refers to the particular interactions that are directly responsible for customer satisfaction or dissatisfaction?
 - a. High contact services
 - b. Critical incidents
 - c. Implicit service promises
 - d. Explicit service promises
 - e. Low contact service
10. In services marketing, which of the following elements provide tangible cues to the customer to help him or her evaluate the product?
 - a. People
 - b. Place
 - c. Physical evidence
 - d. Process
 - e. Promotion

Activity 11.2

Vistara Airlines, a joint venture between Singapore Airlines and TATA Sons Ltd., has been differentiating its service since its launch. It has positioned its airline service in the premium economy segment of the airline market. Write a note on how Vistara blends the various elements of service marketing mix to communicate and promote its brand identity and service offering to its customers?

Answer:

11.6 Summary

- Services are characterized by their intangibility, inseparability, variability, and perishability. Due to these characters, goods and services show considerable differences. Therefore, the marketing approaches should also be different.
- The four Ps of the traditional marketing mix, viz., product, price, promotion, and place, largely determine how well a company can use each element to satisfy its customers, and thus gain profits.

- A company should design products that meet customers' needs and develop a pricing structure that customers find affordable and attractive. Further, the benefits of using these products should be communicated to the customers through suitable promotional strategies and should be delivered in a cost-effective manner through profitable distribution channels.
- Service providers have found that the four traditional Ps of the marketing mix are not adequate for services due to the distinct characteristics of services. These four Ps namely, product, price, promotion, and place, do not cover all the areas of service production and delivery.
- Service providers have added another three Ps to the traditional marketing mix. These are people, process, and physical evidence.

11.7 Glossary

7 Ps of Services Marketing Mix: In service marketing, there are seven important elements of marketing mix – product, price, place, promotion, physical evidence, process, and people, which are together referred to as the 7 Ps.

People: The term refers to all those persons who are involved in the production and consumption of a service.

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

Place: It is where products/services are exchanged with the customer for a price.

Price: It is the amount paid by a customer who buys the product or hires the service of the marketer.

Process: It involves transforming a certain input into the desired output.

Product: It refers to physical goods or a service offering that is of value to the customer.

Promotion: It involves communicating with the target market to provide information about the product/service.

Service Encounter: It is the actual time period during which an interaction takes place between the service provider and the customer.

11.8 Self-Assessment Test

1. An organization should analyze which elements of the marketing mix are most important for its business at a given point in time. Explain the vital role played by marketing mix in traditional marketing.
2. The four traditional Ps of the marketing mix failed to cover certain aspects that differentiate products from services. How are the 4Ps inadequate while marketing services?

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3. Marketers have found that the 4Ps fell short when the strategy for marketing services had to be designed. This led to an expansion of the marketing mix. What is the expanded marketing mix designed for marketing services?

11.9 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.

11.10 Answers to Check Your Progress Questions

1. (b) **Service quality can be displayed and clearly communicated to customers**

All the options are true regarding the inadequacy of the four traditional Ps of the marketing mix for services, except option (b). However, option 'b' is not true and does not hold good with regard to services. Services cannot be inventoried and displayed like service. Hence communicating service quality to customers is not an easy task.

2. (c) **People, Process, Physical evidence**

The four traditional Ps of the marketing mix -- product, place, price, and promotion are adequate for marketing a product but were found to be inadequate for services. So, an additional 3 Ps were added. These were people, process, and physical evidence.

3. (c) **All the traditional elements can be used collectively as well as in isolation to develop, design, and market products/services that satisfy customers' needs**

All options are true, except option (c). The traditional marketing mix comprises 4 Ps, namely, product, price, place, and promotion. All the 4 Ps of the marketing mix should be used collectively rather than in isolation, as each one of them has a direct or indirect impact on the other elements of the marketing mix.

4. (c) Promotion

The traditional marketing mix comprises 4 Ps, namely, product, price, place, and promotion. The services marketing mix includes another 3 Ps, namely, people, process, and physical evidence. Promotion helps a company create awareness and build recognition for itself and its products in the target market through advertising, sales promotions, etc. A company should choose a suitable promotional strategy that communicates its product offerings to the target market.

5. (b) Process

Service process is the way in which the service is delivered to the end customer. The service must be delivered in such a way that the service experiences need to be optimized. Also, the service quality must be maintained. Service process lays out the blue print or the path that a company defines to deliver the service to the end customer.

6. (e) Core; tangible; augmented

Marketers have identified three levels in developing the product element of the marketing mix as far as services are concerned. The 'core' level aims to satisfy the important needs of the customer while the 'tangible' level manages the appearance of the product. The 'augmented' level involves the addition of supplementary services to the basic offering.

7. (b) Physical evidence

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

8. (a) Service encounter

Customer service encounters have an impact on the quality of service delivered by the organization. A service encounter is the actual time period during which an interaction takes place between the service provider and the customer.

9. (b) Critical incidents

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

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very important for completing the service delivery process on a successful note. These interactions are named “critical incidents”. They are directly responsible for customer satisfaction or dissatisfaction.

10. (c) Physical Evidence

Services are highly intangible. Hence, customers look for certain physical cues to evaluate the service. While these physical cues are apparently available in the case of products, service marketers need to create physical evidence in the form of signs, symbols, artefacts and ambient conditions to help customers evaluate services and make favourable purchase decisions.

Unit 12

Product: Packaging the Service

Structure

- 12.1 Introduction
- 12.2 Objectives
- 12.3 Service Product Level
- 12.4 Service Product Decisions
- 12.5 Branding in Services
- 12.6 Categories for New Service Development
- 12.7 New Service Development Process
- 12.8 Product Life Cycle
- 12.9 Service Innovation and Design
- 12.10 Customer Defined Service Standards
- 12.11 Summary
- 12.12 Glossary
- 12.13 Self-Assessment Test
- 12.14 Suggested Readings/Reference Materials
- 12.15 Answers to Check Your Progress Questions

“The packaging says it all.”

— Alyssa J. Montgomery

12.1 Introduction

The quote best suits for services. The most important thing while designing a service is that the final packaging should persuade the consumers.

In the previous unit, we discussed the marketing mix elements of the 4Ps, how they were inadequate for marketing services, and how the 3Ps of people, process, and physical evidence were added by the service providers. In this unit, the first and foremost ‘product’ element with respect to services will be covered in detail.

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

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

This unit will discuss the various levels in service products, service product decisions, and branding in services. Further, it will talk about the categories under which new services are developed and the process involved in new service development. Finally, it will take a detailed look at the four stages of the product life cycle.

12.2 Objectives

After studying this unit, you should be able to:

- Explain the service product levels and discuss the service product decisions taken at these levels
- Define branding in services
- Identify the different categories under which new services can be developed
- Discuss the new service development process, and the product life cycle

12.3 Service Product Level

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

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

12.3.1 Core Product

The core benefit of any product is to satisfy the basic needs of a customer. Therefore, marketers should first decide on the core benefits the company has to offer its customers. For example, when a customer hires the services of a tax consultant, he/she expects the consultant to calculate the tax to be paid on his/her

income. This is the core service offered by the consultant. However, due to heavy competition and very little to differentiate between different players, marketers have designed products that offer multiple and customized benefits in order to attract and retain customers. For example, the tax consultant might offer to file the tax returns on behalf of the customer and spare him the trouble of waiting in long queues. He/she may even offer suggestions on various investment tools to increase the customer's tax savings. Similarly, many management consultants have started to look after company incorporations (bringing a company into existence according to Companies Act 1956) in addition to consulting and auditing services.

12.3.2 Actual Product

The tangible aspects attached to the service, along with the service, constitute the actual product. This facilitates the delivery of core benefits to the customers. Therefore, marketers should develop the actual product after the core benefit has been decided. Developing a product at actual level involves developing features, design, quality level, packaging, and brand name. For example, a departmental store like Nilgiris is positioned more like a convenience store. A customer can buy all groceries, fresh vegetables, fruits, milk and milk products from Nilgiris. A customer who is hungry can also get bakery products like sandwiches, cakes, hot puffs, etc. The assortment of product categories offered and the customer needs to which they cater to, put together define the actual service of Nilgiris departmental store.

12.3.3 Augmented Product

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

12.3.4 Potential Product

The features or benefits that can be added and which would be of value to the customers contribute to the potential product. This scope for adding more benefits or features, provides an opportunity for marketers to redefine their products by extending the present offerings and thus attracting new customers. For example, when a woman goes to a parlor for a change in her hairstyle, she has to choose from the hairstyles shown in the posters out there. However, the hairstyle she chooses may look good on the model in the photograph, but not on her. She might want to know how she would look in a particular hairstyle. The parlor can enable

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customers to choose their hairstyle with the help of new technology. They can load software that helps them to superimpose various hairstyles on the image of a customer and let the customer choose the one she feels suits her best. In fact, there are some salons which offer this feature.

Example: L’Oreal Creating Potential Products through Technology

L’Oreal, being a cosmetic brand, also started offering services like L’Oreal Salons across the world. Customers of L’Oreal Salon can avail services like hairstyling, makeup etc. During 2022, L’Oréal Group unveiled its latest beauty tech equipment Coloright. It is an AI-connected hair color system for salon stylists that leads to an on-demand, customized hair color with more than 1,500 custom shades possibilities. This machine analyzes the client’s hair, accompanied by cartridges of base creams, developers and diluters. Together, these dispensed components create a personalized hair color recipe. This technology created potential products which attracted existing and new customers.

Source: (Jan 2022), “L’Oréal unveils latest beauty tech innovations ahead of CES 2022”, <https://www.loreal.com/en/press-release/research-and-innovation/loreal-unveils-latest-beauty-tech-innovations-ahead-of-ces-2022/> (accessed on 6.06.22)

Activity 12.1

‘Health and Nourish’ is a vegetable shop that sells fresh fruits and vegetables to customers. Customers are happy with the fresh fruits and vegetables that the store sells at an affordable price. However, due to higher level of awareness customers have also been raising questions about the pesticide content in the fruits and vegetables that they buy from the store. What is the potential product that ‘Health and Nourish’ can offer to customers in the future?

Answer:

12.4 Service Product Decisions

Service product decisions can be taken at various stages in the business cycle of the service provider. A service provider may start his/her business by offering a service, and he/she may add more services at later stages. For example, an internet service provider could initially start his/her business by providing e-mail facilities alone, but later on he/she might introduce new facilities like voice-chatting, web camera, net-2-phone, etc. A business can adopt any of the four growth

strategies - penetrating the markets with existing services, entering new markets with the existing services, expanding the existing markets with new services, and entering new markets with new services. These four growth strategies proposed by Igor Ansoff are known as market penetration, market development, new service development, and diversification. They are discussed in detail below.

12.4.1 Market Penetration

Market penetration is a growth strategy wherein the service provider seeks to sell more of the existing products in the existing markets to achieve a larger market share. This strategy involves the lowest risk among all the growth strategies. Companies adopting this strategy do not make any changes to their existing services or the segments they serve. The market position of the service brand is improved using any of the following market penetration strategies.

- **Maintaining or increasing the market share of existing services:** A service provider can maintain or increase the market share of the existing services through promotional activities, aggressive advertising, brand repositioning, or new pricing strategies.
- **Driving away competitors by restructuring a mature market:** This strategy requires a service provider to project the market as unattractive for competitors by designing a suitable (low-price) pricing strategy and by engaging in aggressive promotional activities. For example, if an existing cellular service provider lowers the rates of its services substantially, then a potential competitor might not consider entering the market as the pricing structure is unattractive.
- **Inducing existing customers to use the services frequently:** Service providers can achieve higher growth by inducing existing customers to use the services more frequently. This can be done by introducing loyalty schemes or offering club memberships, which encourage customers to use a particular service. For example, Jet Airways uses frequent flier programs to encourage their passengers to use their services more frequently.

Example: Delta Airlines Inducing Existing Customers to Use the Services Frequently

Delta Airlines ranked highest in the customer satisfaction with a score of 860 on a 1000 point scale, according to the North America Airline Satisfaction Study conducted by J D Power during 2021. It has a loyalty program called Delta SkyMiles. The members can join freely and they will earn 5 miles per dollar spent on Delta flights in main cabin or above. When they pay a higher price, they are rewarded with more miles.

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It has four tiers other than general SkyMiles members namely Silver Medallion Members, Gold Medallion Members, Platinum Medallion Members & Diamond Medallion Members. These tiers give 7, 8, 9 & 11 miles per dollar respectively. Thus it induces existing customers to use services more frequently.

For details, check out- <https://www.delta.com/apac/en/skymiles/how-to-earn-miles/earn-with-delta> (accessed on 6.06.22)

12.4.2 Market Development

By adopting a market development strategy, a company aims to expand its business by entering new markets with its existing services. This strategy involves medium risk. It can be adopted in the following ways:

- The company can enter new geographical markets. For example, FedEx has successfully expanded its market by offering its services in many countries across the world.
- The company can identify new market segments. For example, airlines have reduced the prices of economy class tickets to attract passengers who would otherwise have opted for other modes of travel.
- The company can adopt new distribution channels to improve the reach of a particular service. Some insurance companies use the services of banks for selling their policies to customers. For example, Life Insurance Corporation of India has tied up with banks like HDFC Bank and ICICI Bank, to allow the common customers to pay their premium through internet banking or mobile banking.

12.4.3 Product/Service Development

Product development strategy involves introduction of new products/services in the existing markets. This strategy may not be as risky as diversification strategy, as the customers are known and it is only the service that is new. It demands additions or improvements in the existing facilities or skills. It might require modifications in the service delivery to attract the attention of existing markets.

12.4.4 Diversification

A company that adopts a diversification strategy enters a new market with new products or services. This strategy involves greater risk when compared to other strategies, as the company is experienced neither with the market nor with the product. For example, the entry of the Tata group into the field of mutual funds as Tata Mutual Funds is an example of diversification. Similarly, Wipro started offering BPO services to new clients (and also its existing IT clients) through its BPO arm Wipro Spectra mind. This is a good example for diversification. However, a company should carefully assess all possible risks when adopting a diversification strategy. Further, it should set clear goals that can be met by adopting this strategy.

Activity 12.2

FastEX is a new entrant into the courier industry. The industry is already brimming with major players with cut-throat competition. The firm not only wants to establish itself in the existing market but also wants to cater to the untapped market. Discuss the decision strategies that would help FastEx achieve its goals.

Answer:

12.5 Branding in Services

A brand is a combination of tangible and intangible benefits or values that are important to the customers. It is more difficult to brand services compared to branding goods because of its intangible and heterogeneous nature. Therefore, it is difficult to assess the quality of the service offered by different service providers in the market. It is also difficult for the service provider to maintain consistency in the quality of the service delivery.

However, branding services will help service providers gain an advantage over competitors in the market. It also instils confidence in the customers hiring the service and reduces the perceived risk involved. For example, in July 2019², HDFC Ergo General Insurance Ltd.³ announced that it would acquire a majority stake by buying 50.8% stake that Apollo Hospitals owns in Apollo Munich Health Insurance. The deal is likely to be closed in a few months after the necessary regulatory approvals are obtained. After the merger, the merged entity HDFC Ergo General Insurance will become a ₹ 10,807 crores business and will emerge as the second largest private insurance business. This phenomenon is also evident in the consulting/accounting industry, where many firms merged together to strengthen the brand further and reap richer benefits. Some of the advantages of successful branding are higher prices of products/services, higher profit margins, and brand loyalty. When customers use a particular company's services regularly and ignore the competitors' offerings, those customers are said to be brand loyal. A company's profit margins can be improved with the increase in the number of loyal customers.

² <https://economictimes.indiatimes.com/markets/stocks/news/hdfc-snaps-up-apollo-munich-health-for-rs-1347-cr/articleshow/69860126.cms>

³ HDFC Ergo General Insurance Ltd. is a joint venture between HDFC and ERGO International AG.

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12.5.1 Types of Branding

Branding in services can be developed through manufacturer branding and licensed branding. Manufacturer branding is so called as the brand is created and named by the producer. Further, a manufacturer brand can be developed either by adopting a multi-product strategy or through a multi-branding strategy. Licensed branding, on the other hand, is an agreement between the producer and the franchisee to use the brand name, design, logo, etc. of the producer. Music world outlets run by franchisees are an example of licensed branding. Given below are the various types of branding strategies.

- Through a multi-product branding strategy, a company uses the same name for all its products/services. Blanket branding/family branding are the names given to strategies under this category. For example, Citi Group's services have Citi in the names of all their service offerings.
- Through a multi-branding strategy, a company gives different brand names to different products. For example, LIC offers various life insurance policies using different brand names like JeevanSanchay, New Janaraksha, Varishtha Pension BimaYojana, etc.
- A company can also use a combination brand name by mixing the family brand name as well as the individual brand name. For example, State Bank of India used this combination brand name strategy and named its credit cards as SBI Gold Card, SBI Kisan Card, etc.

An interesting point that arises here is whether brands change people or people change brands. It largely depends on the clarity in the understanding of these three terms - change, brands, and people. It is generally believed that changes in the market take place when new needs and wants are created in the minds of customers. Brands are not limited to products. They also include services, media, charities, etc. For a change to really impact the market, a significant number of target consumers need to change. The basic needs of human beings never change, but how they satisfy these needs change over time. For example, earlier families preferred traditional Indian foods like idli, or dosa for breakfast. These are now being replaced by corn flakes, bread, eggs, and ready-to-eat snacks. However, a real change takes place in the political, socio-cultural, religious, and economic environment, which in turn changes the lifestyle of consumers. These changes create new trends which give birth to new brands.

Example: Multi Branding Strategy of Facebook

Market leader Facebook was the first social network to surpass one billion registered accounts and currently sits at more than 2.89 billion monthly active users. The company currently also owns four of the biggest social media platforms, all with over one billion monthly active users each: Facebook (core platform), WhatsApp, Facebook Messenger, and Instagram.

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In the third quarter of 2021, Facebook reported over 3.58 billion monthly core family product users. Through multi branding strategy, Facebook commanded the global social media platform market as a market leader.

For details, check out- <https://www.statista.com/statistics/272014/global-social-networks-ranked-by-number-of-users/> (accessed on 6.06.22)

Check Your Progress - 1

1. For which of the following service product levels do the tangible aspects of a service come into being?
 - a. Actual product level
 - b. Core product level
 - c. Augmented product level
 - d. Potential product level
 - e. Customized product
2. Identify the right order for the following service product levels.
 - a. Actual, core, augmented, potential
 - b. Core, actual, augmented, potential
 - c. Potential, actual, augmented, core
 - d. Augmented, actual, core, potential
 - e. Core, augmented, actual, potential
3. Which of the following can be defined as an idea, a service, or a piece of goods that involves a mix of tangible and intangible elements, which aim to satisfy consumers?
 - a. Brand
 - b. Process
 - c. Product
 - d. Package
 - e. Offer
4. Which of the following product types incorporates features, design, quality level, packaging, and brand name?
 - a. Actual products
 - b. Core products
 - c. Augmented products
 - d. Potential products
 - e. Basic product

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5. Which of the following is not a growth strategy included in Ansoff's Product Growth Matrix?
 - a. Market development
 - b. Product development
 - c. Market penetration
 - d. Diversification
 - e. Differentiation
6. In the case of which of the following strategies, does a company give different brand names to different products?
 - a. Multi-product branding strategy
 - b. Multi-branding strategy
 - c. Combination brand name strategy
 - d. Generic branding strategy
 - e. Umbrella branding strategy
7. Which of the following is an agreement between the producer and the franchisee to use the brand name, design, logo, etc., of the producer?
 - a. Multi-branding
 - b. Licensed branding
 - c. Multi-product branding
 - d. Combination branding
 - e. Co-branding

12.6 Categories for New Service Development

As discussed earlier, new services or products can be developed and introduced either in the existing markets or in completely new markets. Before understanding the actual process of new service development, let us first discuss the different categories under which new services can be developed.

- **Major innovations:** These are new services that are yet to be introduced in the market. For example, innovations in technology helped many banks across the globe to start offering new services like net banking, and mobile banking.
- **New services for existing markets:** A service company might start offering new services to its customers. This service may be already offered by other companies in the market. For example, SBI has launched credit cards and started ATMs, services that were not available to its customers previously. However, other private banks like Standard Chartered, Citibank, HSBC, etc., started offering these services even before SBI. Some start-up service companies might also start offering services that are already offered by other companies.

Example: BharatMatrimony, a Benchmark for New Matrimony Services for Existing Markets

BharatMatrimony is India's top ranked and most trusted matrimony service providers. BharatMatrimony started diversification into the marriage-related service business well before its competitors, including matrimonial gifts, a return gift store chain format, Tambulya, and a matrimony directory which provides details of various marriage-related services. They offer personalized matchmaking services known as Elite Matrimony which was set up to cater to matrimony needs of wealthy customers. Later its competitors also started matrimony services for Elite customers, by creating new services for existing markets. The revenue generated from marriage services of Matrimony.com commonly known as BharatMatrimony amounted to 27 million Indian rupees in the fiscal year 2022.

For details, check out <https://www.bharatmatrimony.com/> & <https://www.statista.com/statistics/910160/india-marriage-services-revenue-of-matrimonycom-ltd/#> (accessed on 6.06.22)

- **Improvements in offerings:** These improvements can take place in two ways. The first way is to improve the features of the existing services. For example, banks have started working for longer hours in a week for customer convenience. The second way is to add new features to the existing services. For example, hotels add health club and conference facilities apart from their regular services.
- **Minor changes:** These are changes in style of the service companies.

12.7 New Service Development Process

The fixed costs involved in developing a new service for a market are very high and failure in operating this service successfully can result in losses for the company. For example, fixed costs for launching a new insurance company, building a premium hotel, or starting a new airline service are so high that if these services operate under-capacity, then the service company would experience huge losses. In order to avoid these losses, service companies should take time to analyze the various factors involved and design a new service that guarantees maximum success.

The following steps would help a company to successfully develop a new service.

12.7.1 Generation of Ideas

Ideas to design and develop a new service may be generated within the organization or can be gathered from external sources like customers. Before proceeding further, these ideas should be thoroughly analyzed. Let us now discuss the internal and external sources of ideas in detail.

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Internal sources: Organizations should encourage their employees, especially the sales staff and the front-line personnel to communicate any ideas that they may have for new service development or improvement in current service offering. Some of the ideas may be gathered by the front-line personnel during their interaction with customers or competitors. Further, organizations should maintain a suggestion box. They can invite suggestions and ideas from their employees and analyze them from time to time. Brain-storming sessions among employees may also prove to be quite useful in generating new ideas. A sound evaluation of the current services may also give rise to new ideas to improve them, or to add more features to the existing services or to develop new services. Organizations should continuously invest in educating and updating their personnel with the latest developments in the field. For example, they can send their key personnel to seminars and workshops in their concerned areas of business.

External sources: Organizations should keenly analyze the customer feedback on their existing services and their comments on the competitors' services, as these may give rise to successful ideas for new service development. Organizations can also approach experts in the field like marketing consultants for innovative ideas. More importantly, organizations should also conduct marketing research and perform gap analysis on a regular basis to identify those areas where there is demand for services but no players to offer those services. A well-built Market Information Systems (MIS) in an organization can act as a tool to gather information on the existing services and track the market trends for new services.

Example: Generation of Ideas from Internal Sources @ Google Labs

Google Labs was the internal name given to a new team at Google created under a reorganization that aims to gather the company's many innovative projects and long-term bets under one roof. Bavor will lead the new organization that will contain Google's existing AR and VR efforts, its futuristic Starline, its in-house incubator called Area 120, as well as any other "high-potential, long-term" projects. Area 120 was envisioned as a way to better retain entrepreneurial-minded talent at Google, while giving teams the ability to test out new ideas while still having access to Google's data, products, and resources. Thus Google was nurturing the idea generation ability from among its internal sources.

Source: Sarah Perez. Nov, 2021. "Google reorg moves AR, VR, Starline and Area 120 into new 'Labs' team". <https://techcrunch.com/2021/11/11/google-reorg-moves-ar-vr-starline-and-area-120-into-new-labs-team-reporting-directly-to-sundar-pichai/> (accessed on 6.06.22)

12.7.2 Screening

This is the second stage in the process of new service development. It involves screening the ideas generated in the earlier stage. At this stage, an idea can either

be dropped entirely, or be stored in the database for future reference, or be adopted with a few modifications or be approved and implemented directly. While analyzing any idea, the organization needs to check the compatibility of the new idea with the existing service offerings and the organization's resources. Information on the predicted present/future demand for the service, the expected revenues, and the estimated time to launch the service and the possible reaction of the existing competitors are essential for evaluating an idea.

Besides, organizations should also foresee the possible obstacles in the development process and the likely delays or losses due to them. These obstacles can be technological, regulatory or financial in nature. The management should be practical in dealing with a new service development as it involves huge costs that might affect the current business situation.

12.7.3 Testing the Concept

An idea that has been approved by the management may or may not be liked by the customers. Therefore, the idea or the concept should be tested to know the reactions of the target customers who would finally use the service. Often, companies adopt market research techniques and conduct surveys to know the opinion of the target customers about the new service. It is very important for service providers to directly interact with the customers and analyze their responses. For example, when a tourism service provider plans to offer a lodging service to his customers, he should talk to his existing as well as potential customers about the service offering and find out if they would like to have such a service. Then, depending on their response, he/she can decide whether to offer the service or not. He/she can even gather customers' ideas and suggestions on the kind of service they would prefer and its features. Alternatively, he/she can hire the services of a market research agency to conduct the market survey and convey the final results after analysis. In recent times, even the film industry (Bollywood) is hiring the services of market researchers to know in advance if a film with a specific storyline and star cast would succeed in the market. Then accordingly, they change their storyline or star cast to suit market needs.

12.7.4 Business Analysis and Design of Service

This stage further analyzes the idea that has been selected in the earlier stage and designs all the seven Ps of the marketing mix. An organization prepares various types of forecasts and cost estimates that are required for the development and launch of a new service. Equipped with these details, an organization can better assess the market potential for a new service.

Business analysis involves defining the target market, its size, its structure, and the existing customer trends. Present and future demand forecasts can prove to be extremely useful in helping the organization decide whether to launch the new service. In addition, information about the effects of external environmental

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factors is essential for the organization to develop measures to tackle any problems that may arise in the course of developing and launching the new service. Further, the existing competition and their strategies should also be analyzed. At this stage, an organization also designs the service process through service blueprinting.

Business analysis and design of the service take place simultaneously as the outcome of business analysis determines the design of the service. Simultaneously, as and when a new service takes shape, its business has to be analyzed. Therefore, decisions relating to both are dependent on each other. Any service has certain design risks due to intangibility. Marketers should have a complete understanding of these risks. Lynn Shostack proposed four risks related to service description namely oversimplification, incompleteness, subjectivity, and biased interpretation.

- **Oversimplification:** This should be avoided by marketers when describing a service as it may fail to convey the actual benefits or features of the service to the internal as well as external customers.
- **Incompleteness:** The management, the employees, and even the customers should try to learn the aspects they do not understand in a service description. An incomplete service description would have an adverse effect on description of the service delivery and consumption.
- **Subjectivity:** There is a risk that the description of the service design is limited to the knowledge of the person who describes it. This happens when the service provider is biased or has a limited exposure to the service.
- **Biased interpretation:** This risk arises as a result of misinterpretation of the words used by a supervisor to his/her service personnel, or by the service personnel to the consumer.

Therefore, service description should not be limited to verbal clues and should include visual clues as well.

12.7.5 Test-Marketing

To further reduce risks associated with launching new services, organizations should test-market their services before launching them in the market. Organizations can select specific areas where they allow consumers to use their services and provide constructive feedback.

Test-marketing help an organization perform pre-launch modifications to the service to rectify any lapses in the marketing mix and thus avoid problems later on after the service is launched in the market. In addition, organizations should also decide on the areas to test market the service and the time duration of the exercise as repeat purchases are more important to management decisions than the trial purchases. Organizations can adopt a 'roll out' process, wherein the service is introduced to other regions after its success in one region.

However, test-marketing has certain associated risks that marketers should be vary of. Competitors may learn about the new ideas and might develop or modify their services accordingly by the time the company launches the service. Therefore, organizations should take due care when deciding the period and area to test-market a service.

12.7.6 Infrastructure Development

The infrastructure required to deliver the service is developed in the penultimate stage when the company prepares to launch the service. This may include many activities like hiring and training personnel, selecting the channels, developing promotional policies, pricing policies, and designing the packaging of the new service.

12.7.7 Service Launch

The last stage in the new service development process is the actual launch of the service in the market. The life cycle of a service begins here and it is important to regularly supervise the operations to maximize revenues. At this stage, the new service gets revenues to cover for the costs involved in designing and launching it. Services can be launched on a 'roll out' basis as discussed in the test-marketing stage or they can be launched directly in all the national and international markets.

12.8 Product Life Cycle

After a new product/service has been developed and introduced in the market, the different stages through which it passes over time, is known as the product/service life cycle. Generally, there are four stages in a product/service life cycle namely, introduction, growth, maturity, and decline.

These four stages are discussed in detail below:

12.8.1 Introduction

This is the first stage in the product life cycle wherein a product or service is introduced in the market. The main aim of marketers at this stage is to increase product/service awareness among customers. An organization can adopt any strategy in the market like skimming or penetration pricing depending on the size of its operations. Organizations may not earn profits at this stage as they have to cover the costs incurred. However, organizations should carefully monitor the performance of the service to avoid any losses in future. In fact, to let the service grow further.

12.8.2 Growth

The brand awareness created in the earlier stage helps an organization to earn revenues and reap profits at this stage. The markets continue to grow as more and more customers buy the service. Further, organizations invest in promotional activities with the aid of profits. Thus, marketers strive to increase their market share and also maximize their profit margins.

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12.8.3 Maturity

Due to high competition and limited growth in this stage, companies try to maintain their market share. Marketers try to modify their services to tap any potential for growth. They also try to increase the quality and efficiency of their services to maintain customer loyalty. They should be discreet in deciding their marketing expenses and in allocating their finances.

12.8.4 Decline

This is the final stage in the life cycle of a product/service. It is characterized by reduction in demand, and consequently, a decrease in revenues and profit margins. The introduction of new services in the market or changes in customer preferences reduces demand. The best option for marketers is to discontinue the service if they cannot afford to modify or reposition it.

Example: Decline of Nokia & RIM

Apple was the global market leader from its entry in smart phone market since 2007. In Q1 2012, it achieved peak market share of 23%. During 2007 to 2012, Apple was in the PLC stage where the competition for its smart phones intensified in all the global markets. Its competitors were entering the market with many substitutes and alternative products making the rivalry more intense. During 2012 to March 2022, due to the competition from Samsung, its position changed to the number two position. After the former market leaders Nokia and RIM reached their decline stages, Samsung and Apple were dominating the global smartphone market since more than a decade as of 2022.

For details, check out <https://www.statista.com/statistics/216459/global-market-share-of-apple-iphone/> (accessed on 6.06.22)

12.9 Service Innovation and Design

With fierce competition, shortening new product/service and technology cycles, new service development has become an on-going process for all service organizations. Poor service design and plan has been cited as the most important reason for poor initial service quality and service failure.

New ideas are analyzed in terms of investment requirement, the service delivery process, marketing plans and expectations in terms of profits and returns. A final test of the service specification is performed to detect weaknesses and confirm the quality after which it is ready to be implemented.

The long-term profitability of a service organization depends on its ability to constantly innovate and launch new services. New models in services can be classified based on whether they are radical or incremental. Innovations have different dimensions.

Radical or breakthrough innovations

A radical idea is a new, bold service idea that is fundamentally different and has the potential to replace an existing business model. With severe competition and demanding customers, service companies that have the competencies to come up with breakthrough innovations have a clear-cut competitive advantage. Radical innovations often cater to unmet customer needs or deliver substantial benefits leading to increased customer satisfaction and decreased costs.

Examples: E-com, Mobile banking, etc.

Radical improvement in service processes

Here, the innovation is in the service production process or in design, distribution and marketing of services. When such innovations happen, they result in far-reaching changes in the operations. The benefits to the company can be in the form of increase in productivity, savings in cost and time, better customer service and profits as well.

(i) Incremental innovations: This refers to continuous improvements in existing services. Incremental innovations can happen in response to changing customer needs or also as a result of research. Since, they do not change the business model drastically, most innovations in service businesses are incremental in nature. The following examples can be cited:

- Windows XP, Windows 8, etc.
- Cash On Delivery (COD) scheme introduced by Flipkart.

In addition to these innovations, service businesses strive to enhance customer satisfaction through service line extensions, service improvements or changes to improve image or perceptions.

(ii) Service line extensions: Airlines offering new routes, restaurant adding new menu items.

(iii) Service improvements: Taxi services like Uber, wherein you press a button and a black car arrives.

(iv) Changes to improve image or perceptions: Changing the interiors of a restaurant to give a new look, changing color scheme, revising the logo etc.

Some of the following are the examples.

- Lean processes minimize wastage.
- Six Sigma, a process that reduces defects in service.
- Uber's smartphone application that is integrated with Google maps, so that one can spot the nearest Uber car and hail a car.
- Uber cards, using which commuters can make non-cash payments without the botheration of looking for change.

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12.9.1 Startup Businesses - A New Phenomenon

A start-up is a business model that provides new services that are characterized by their uniqueness. Their products or services may cater to customers who are already served by existing players, but the uniqueness of the services offered as compared to the offering of the competitors help them to carve out a niche for themselves in existing markets. The term ‘start-up’ became popular when they were used to refer to the new dotcom companies that sprang up before the dotcom bubble.

The ‘start-up’ phenomenon faced a decline after the dotcom bubble burst. But in recent times, a confluence of talented, ambitious and highly motivated entrepreneurs are driving the start-up boom in India. A start-up is successful if the value proposition it offers is unique, has distinct features and benefits and if the market size justifies the investment. The start-ups are funded either by the promoters themselves or by venture capitalists or angel investors who exchange equity stake for investment. Twitter, which is an online social network and micro blogging service was a start-up launched on 15th July 2005.

Example: Pristyn Care Startup becomes First Unicorn in Indian Healthcare

Pristyn was a healthcare services startup established in 2018. Pristyn Care was the first unicorn in healthcare services with USD100 million funding in 2021. It built a network of over 400 best expert surgeons, had around 800 surgical centers across 40 cities, covered over 50 diseases for patients requiring advanced surgeries. It gained traction during the pandemic which created a lot of demand for technology. With new funding, it will augment its product and technological capabilities, it will hire highly qualified engineers to make up a quarter of its new workforce, it will update its partner-hospital infrastructure, it will improve its product and technology. It will expand into new disease categories.

For details, check out <https://www.ibef.org/news/healthcare-startup-pristyn-care-raises-96-million-joins-unicorn-club> (accessed on 6.06.22)

12.9.2 Developing Sustainable Service Models

The conventional services marketing definition does not factor in the concept of ecological sustainability in it. Sustainable services are service offerings that satisfy customer needs and also works on improving the social and environmental performance at all stages of the service production life cycle (Belz, Peattie, Frank-Martin, Ken (2009)). Thus, the definition makes it clear that sustainable services must satisfy customer needs to be relevant and at the same time keep the social, economic and environmental costs to the bare minimum. The ‘go green’

movement has impacted consumer decision making. Therefore, service marketers are working on developing sustainable service models.

Since, services have less product component in its offerings, they are more ecologically sustainable as compared to products. Thus, from a macro perspective, the transition from industrial to service economy is ecologically beneficial because it signals the decline of traditional smokestack factories that consume more natural resources in the form of raw materials. The shift to services like banking, health care, education which is more labor intensive is good from an environment perspective.

There are a number of product based services that may involve an eco-conservation component in it. For instance, car sharing organizations offer businesses and individuals 'car use' facility on a rent and share basis. This facility eliminates the need to own cars, thus reducing the need to produce more cars.

Service organizations can also go green by using environmentally friendly materials. An auto repair service or photo-finishing service could use environmentally friendly materials in their processes. A car cleaning service could use water that is recycled, thus conserving water. Consuming less electricity, water and managing paperless offices are other means to cut costs and make the service model socially and environmentally sustainable.

12.10 Customer Defined Service Standards

A service organization has to define service delivery standards based on the expectations of the customers. Thus the first step in defining service delivery standards is to have a deep understanding of what the customer wants. Once customer needs are understood, a set of rules or guidelines that define customer experience and strengthen relationship with customers is formulated by the company. These standards are then universally adopted and implemented by customer service employees to resolve complaints or serve customers. In the long-run, these standards pave way for high quality customer service, thus enabling customer retention and increase in customer profitability.

Importance of Customer Service Standards

Customer service standards need to be comprehensive and cover all the points of contact that the marketing personnel have with the customer. It includes customer service policies, practices and recommended code of behaviour on the part of service personnel at all key touch points. It is important that these rules and standards need to reflect the customer's views or their expectations. The following points emphasise the importance of formulating and practising customer service standards:

- The entire exercise of formulating customer service standards helps a company to script the buyer journey. Favourable customer experiences along the journey increases purchase possibility.

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- Quality customer care inspires customer loyalty. Customers continue to patronize the products of the company. Research has pointed out that the cost incurred to gain a new customer is many times more than the cost of retaining an existing customer. Hence it is more profitable for a company to improve customer service and retain existing customers.
- The lifetime value of a loyal customer who is inspired by a pleasant transaction yields significant dividends to the company. Happy customers buy other products/services of the company, thus increasing the sales revenue.

Best Customer Service Standard Practices:

While there are no hard and fast rules regarding what constitute best practices for customer service standards, the following points may be kept in mind:

- Customer service standards can be aspirational to inspire the marketing team. However, for standard and positive results, a company should adopt specific, measurable practices based on real customer experiences.
- The goals and objectives need to be measured in terms of objective metric such as money, time or any other quantitative unit of measure.
- Employees should be clearly communicated as to what is the expected behaviour under different situations. General value standards such as ‘delight the customer’ are aspirational. However, they do not provide clear guidelines as what specific response or service would enhance customer experience.
- The step-by-step procedures, responses should be clearly defined. In this regard, it may be important to define time limits. For instance, it may be useful to define what is timely service and what is delayed or unacceptably delayed service.
- It is absolutely important that customer service standards should be based on customer expectations. It is important to understand customer expectations through interviews, surveys, etc.

Example: Best Customer Service Standard Practices @ Zomato

Zomato is an Indian multinational restaurant aggregator and food delivery company popular for its best customer service standards of delivering food within 30 minutes of order. In March 2022, it announced ‘Zomato Instant’ the 10-minute food delivery. The fulfilment of such a quick delivery promise relies on a dense finishing stations’ network, which is located in close proximity to high-demand customer neighbourhoods. Sophisticated dish-level demand prediction algorithms, and future-ready in-station robotics are employed to ensure that your food is sterile, fresh and hot at the time it was picked by the delivery partner.

Source: Deepinder Goyal. March 2022. “Zomato Instant – 10-minute food delivery (Coming Soon)”, <https://www.zomato.com/blog/zomato-instant> (accessed on 7.06.22)

Example of Customer Service Standards: Domino's, for instance, guarantees delivery of pizza within 30 minutes from the time of order placement. Such a rule is clearly understood both by the company customer service staff and the customers as well. Likewise, Amazon has also clearly defined the delivery time for packages for Amazon Prime customers.

For effective implementation of customer service standards, they should be put in writing, formally adopted, disseminated through circulars and other means of communication to all employees. Revisions in service standards must be periodically undertaken and these should be communicated to service employees and customers.

Activity 12.3

"CallCabs" is a new taxi service provider in the city. The city is already serviced by call taxi service providers like "Maxi Cabs", "Citi Taxi", "City Cabs", etc., which are rated highly by customers. What entry and growth level strategies should this new entrant plan for its product life cycle?

Answer:

Check Your Progress - 2

8. Which of the following steps in the new service development process helps a service organization perform pre-launch modifications to the service to rectify any lapses in the marketing mix and avoid problems after the service is launched in the market?
 - a. Infrastructure development
 - b. Test-marketing
 - c. Testing the concept
 - d. Business analysis
 - e. Market forecast
9. Identify the statement that is not true regarding the business analysis and design stage in the new service development process.
 - a. It involves the designing of the 7 Ps of the services marketing mix
 - b. It involves defining the target market, size, and structure
 - c. Business analysis takes place after the design of the service
 - d. It involves analysis of design risks due to intangibility of the service
 - e. Business analysis helps determine the costs involved in new product development

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10. Which of the following steps in the new service development process involves defining the target market, its size, its structure, and the existing customer trend?
 - a. Idea generation
 - b. Idea screening
 - c. Business analysis and design
 - d. Testing the concept
 - e. Concept development
 11. Anand Foods, which has its only outlet at Bangalore in the country, is all set to open new retail outlets at Delhi and Hyderabad. Which stage of the PLC is it in?
 - a. Introduction
 - b. Growth
 - c. Maturity
 - d. Decline
 - e. Saturation
 12. BayView, a Mumbai-based hotel, recently added a health club and tele-conferencing facilities to its regular services going by the suggestions given by its front-line employees. Into which category of new service development does this fall?
 - a. Major innovation
 - b. New service for existing markets
 - c. Minor changes
 - d. Radical change
 - e. Improvements in offerings
-

12.11 Summary

- Packaging the service product is an important aspect of the marketing mix concept. It enables a company to differentiate its services from the services of its competitors.
- An understanding of the various product levels, namely, core product level, actual product level, augmented product level, and potential product level, helps a company to recognize and meet the customer needs at each level. This increases customer satisfaction.
- While taking product decisions, marketers can choose to operate through the four strategies, namely, market penetration, market development, product development, and diversification.

- After deciding on the strategy to be used to compete in the market, a company should concentrate on branding its services. It can choose to brand under a single name or offer different brands for different services. On the other hand, it might also choose a combination of both types of branding. Proper branding of a service and clear communication will result in an increase in brand loyalty among customers which will have a positive effect on the profit margins.
- When developing a new service, a company must decide under which category it should be developed. For instance, a service can be developed due to major innovations in a particular industry, to introduce new services in addition to the existing services that may or may not be offered by other companies, to improve the service offerings to enhance customer convenience, or due to minor changes in style.
- After deciding the category under which a service must be developed, a company has to develop a new service. This process involves generation of ideas, screening, testing the concept, business analysis and design of service, test marketing, infrastructure development, and launch of the service.
- Launching a new service is just the beginning as a company should closely monitor the various stages in the product life cycle and take timely decisions to operate successfully. Marketers should try to earn profits at each stage --- launch, growth, and maturity stages, and should decide on discontinuing a particular product/service if it reaches the decline stage. However, a company might also choose to reposition the product at this stage.

12.12 Glossary

Actual Product: The tangible aspects attached to the service, along with the service, constitute the actual product.

Augmented Product: The intangible aspects that support a service constitute the augmented product.

Brand: This is a combination of tangible and intangible benefits or values that are important to the customers.

Combination Brand Name: A company uses this by mixing the family brand name with the individual brand name.

Core Product: The core benefit of any product is to satisfy the basic needs of a customer. Therefore, marketers should first decide on the core benefits the company has to offer its customers.

Diversification: This strategy involves entering a new market with new products or services.

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Market Development Strategy: It is a strategy that involves expanding business by entering new markets with existing services.

Market Penetration: It is a growth strategy wherein the service provider seeks to sell more of the existing products in the existing markets to achieve a larger market share.

Multi-Branding Strategy: This strategy involves giving different brand names to different products.

Multi-Product Branding: In this strategy, a company uses the same name for all its products/services.

Potential Product: The features or benefits that can be added/augmented and the changes that the product undergoes to remain valuable to customers. For example, the various useful features added to a software as in the case of Windows. Newer version of Windows have become potential products.

Product Development Strategy: This involves introduction of new products/services in the existing markets.

Product: This refers to an idea, a service, or a piece of goods that involves a mix of tangible and intangible elements which aim to satisfy consumers. It is traded for money or any other trading unit which has some value attached to it. Intangible products can be in the form of services, people, places, or ideas.

12.13 Self-Assessment Test

1. A company's understanding of the various product levels helps it to recognize and meet the customer needs at each level. What are the various levels of a service product?
2. While taking product decisions, marketers can choose to operate using various strategies. Explain these strategies in detail.
3. Branding services will help service providers gain an advantage over competitors in the market. Explain the importance of branding services. What are the various types of branding services?
4. As discussed earlier, new services or products can be developed and introduced either in the existing markets or in completely new markets. Before understanding the actual process of new service development, let us first discuss the different categories under which new services can be developed.
5. When developing a new service, a company has to decide under which category it should be developed. What are the various categories in which a new service can be developed? Explain the new service development process in detail. Also explain the different stages through which a service passes over time.

12.14 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.

12.15 Answers to Check Your Progress Questions

1. (a) Actual product level

The tangible aspects attached to the service, along with the service, constitute the actual product. The characteristics of actual products are features, design, quality level, packaging, and brand name.

2. (b) Core, actual, augmented, potential

Service providers should clearly understand and satisfy their customers' needs, first at the core level by offering them the core benefits, and then at the actual level by attaching tangible aspects to the intangible services. Later, service providers should satisfy the augmented needs of the customer by providing them with superior service. Finally, they should try to satisfy the potential needs of the customers by including features or benefits that can add value to the customers.

3. (c) Product

A product can be defined as an idea, a service, or a piece of goods that involves a mix of tangible and intangible elements, which aim to satisfy consumers. It is traded for money or any other trading unit which has some value attached to it.

4. (a) Actual products

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

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5. (e) Differentiation

A business can adopt any of the four growth strategies --- penetrating the markets with existing services (market penetration), entering new markets with the existing services (market development), expanding the existing markets with new services (new service development or product development), and entering new markets with new services (diversification). These four growth strategies proposed by Igor Ansoff are known as market penetration, market development, new service development, and diversification. Differentiation is not a growth strategy proposed by Ansoff.

6. (b) Multi-branding strategy

Through a multi-product branding strategy, a company uses the same name for all its products/services. Through a multi-branding strategy, a company gives different brand names to different products. A company can also use a combination brand name by mixing the family brand name with the individual brand name.

7. (b) Licensed branding

Branding in services can be developed through licensed branding and manufacturer branding. Licensed branding is an agreement between the producer and the franchisee to use the brand name, design, logo, etc. of the producer. Manufacturer branding is so called as the brand is created and named by the producer. A manufacturer brand can be developed either by adopting a multi-product strategy or through a multi-branding strategy.

8. (b) Test marketing

Before launching their services in the market, organizations should test the market for their services. Test markets help an organization perform pre-launch modifications to the service to rectify any lapses in the marketing mix and thus avoid problems later on after the service is launched in the market.

9. (c) Business analysis takes place after the design of the service

All the statements are true regarding the business analysis and design stage in the new service development process, except statement (c). Business analysis and design of the service take place simultaneously as the outcome of business analysis determines the design of the service.

10. (c) Business analysis and design

The business analysis and design stage makes all the seven Ps of the marketing mix. Business analysis and design of the service take place

simultaneously as the outcome of business analysis determines the design of the service. This stage involves defining the target market, its size, its structure, and the existing customer trend.

11. (b) Growth

Anand Food, which has only one outlet in Bangalore and which is considering expansion, is in the growth stage. In the growth stage, the brand awareness created in the introduction stage helps an organization to earn revenues and reap profits. The markets continue to grow as more and more customers buy the service. Organizations invest in promotional activities with the aid of profits.

12. (e) Improvements in offerings

Bay View has introduced some improvements in its service offerings. This was possible as the organization encouraged its employees, especially the sales staff and the front-line personnel, to communicate any ideas that they may have regarding new service development or improvements in the current service offering.

Unit 13

Pricing Services

Structure

- 13.1 Introduction
- 13.2 Objectives
- 13.3 Key Characteristics of Pricing in Services
- 13.4 Pricing Objectives
- 13.5 Approaches to Pricing Services
- 13.6 Incorporating Perceived Value into Service Pricing
- 13.7 Value Strategies in Pricing of Services
- 13.8 Issues in Pricing of Services
- 13.9 Revenue Management Techniques
- 13.10 Summary
- 13.11 Glossary
- 13.12 Self-Assessment Test
- 13.13 Suggested Readings/Reference Materials
- 13.14 Answers to Check Your Progress Questions

“Pricing is branding.”

— Richie Norton

13.1 Introduction

For any organization pricing is its branding, it can decide the fate of the company as most of the customers are price sensitive. Hence while making marketing decisions for services, the marketer has to give utmost importance to pricing.

In the previous unit, we discussed how a service product is packaged. In this unit, we shall discuss pricing of services.

An important element of the marketing mix and the one that brings in revenue for a company is pricing. The pricing strategy developed by a company can either help it reap the maximum profits or throw it out of business. Companies must ensure that their pricing structure covers the costs incurred to produce a service, earns profitable margins for the company, and at the same time, provides the maximum value to the customers. Further, companies should not design a pricing structure in isolation; rather it should be considered and designed along with the other elements of the marketing mix.

The pricing of services is different from the pricing of goods in many ways. Price has a single name in the manufacturing sector, whereas it takes on different names in the services sector. For example, the price charged for advertising is known as commission; for boarding and lodging services as tariff; for legal services and healthcare as fees; and for share or stock services as brokerage and commission. Pricing of goods is determined by the market demand in most cases, unless regulated by the government. On the other hand, price is controlled by different bodies for various services. For example, prices for government provided services like the railways are completely controlled by the government; prices for services like banking, power, telephone, and insurance are partially regulated by the government, prices in hotels, domestic services, auto servicing, personal care services, recreation, etc., vary according to the demand in the market; and prices of advertising services, hospitals, expert services like lawyers and stock brokers are determined by the service providers themselves.

Further, the price of a service is perceived by customers in various ways. For example, a service that is priced high is considered to be of premium quality. On the other hand, prices vary in services where limited standardization is possible. For example, prices for personalized services like hairstyling are not standardized as they vary according to the style opted for by the customer. However, the processes opted for hairstyling may be standardized. As services are perishable in nature, the demand for a particular service at a given point determines the changes in price to a large extent.

This unit discusses the key ways in which pricing in service firms is different from pricing in manufacturing firms and the various pricing objectives of service firms. Further, it will look at the approaches to pricing services and how service firms can incorporate perceived value into service pricing. Through revenue management a firm maximizes its revenue for a given level of sales by fixing an optimal price level. Revenue management, which is also called ‘Yield Management’ is discussed in detail in the unit. Finally, it will discuss the value strategies in pricing services, and issues in pricing services.

13.2 Objectives

After studying this unit, you should be able to:

- Explain key characteristics of pricing in services
- Discuss the pricing objectives
- Identify the approaches to pricing services
- Determine how to incorporate perceived value into service pricing
- Evaluate the value strategies in pricing of services
- Explain how pricing strategies enable revenue management
- Recognize the issues in pricing of services

13.3 Key Characteristics of Pricing in Services

In general, customers' perceptions of prices are different for goods and services. For example, a customer can easily perceive that a flat screen television or a home theater is worth a higher price than a normal convex screen television. However, evaluating the price attached to traveling on a particular airline or choosing a holiday destination is not equally simple. Let us now discuss how a host of rational and psychological factors influence customer price perceptions in the case of services and play a crucial role in determining purchase decisions.

- **Price is a measure of quality in services:** A customer turns to pricing to assess the quality of a service when he/she does not have any information from other sources like a company's advertising activities or its brand name that would highlight the company's reputation. Pricing is the best measure of quality, especially in services whose quality or price differs widely from the other players in a group of service providers. For example, when a beauty parlor offers a facial at ₹ 250 against the average market charge of ₹ 150 and promises quality, the customer has a better feeling about the quality of service. Therefore, most of the premium service providers price their services higher than the market price. Further, pricing helps customers estimate the quality of services with high credence properties and thus minimize the perceived risk involved in the purchase. For example, services like medical treatment, education facilities, or consulting services involve high-risk and high credence properties; therefore, customers tend to rely on pricing in the absence of other information, to judge the quality of these services. Service providers should, therefore, design a pricing strategy that stands as evidence for the quality of services offered by them.

Example: RRR Movie High Price for High Quality

India's one of the most creative directors Rajamouli's Magnum Opus RRR released worldwide on March 25, 2022. Advance booking in Hyderabad city for the film 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 the extra price to watch the magnum opus in the first day/week. RRR movie creators understood the high quality perception of customers regarding the movie and priced high. The customers also reciprocated paying high price as it is a measure of quality.

Source: Sruthi Hemachandran, (Mar 2022), "RRR Advance Booking Report: Record Opening On Cards For Ram Charan-Jr NTR's Period Drama"

<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 14.06.22)

- **Non-monetary costs and pricing:** Researchers have found that certain non-monetary costs are also incurred by the customers in the process of consuming a service or purchasing a product. Therefore, the demand for a

service is also affected by these non-monetary costs. Consumers perceive that they have incurred certain other costs in addition to the actual price paid for the service and these costs are known as non-monetary costs. They include time cost, search cost, psychological cost and convenience cost.

- a. **Time cost** involves the time spent by consumers in co-producing the service or in waiting to receive the service. For example, the time spent by a patient in the out-patient wing of a hospital to meet the doctor and receive a prescription, or the time spent by a customer in the restaurant to give an order and then have it served, constitute the time cost involved in the two cases. Customers often have to spend their time to receive a service. Therefore, service providers should try to minimize the time spent by the customers in the process of availing of a service.
 - b. **Search cost** involves the efforts made by a customer to recognize and choose the required service. The search costs of services are high compared to those of goods as the prices of goods are easily known and this facilitates comparison. For example, say a customer wants to hire a taxi from Mumbai to Pune. He enquires about the cost from 3-4 service providers before selecting the cheapest one. Customers have to gather information from various service providers before making a decision.
 - c. **Psychological costs** are borne by the customers either at the time of buying the services or at the time of consuming them. A customer's fear of those terms in an insurance policy which he/she cannot understand, or his fear of being rejected by a banker when he/she applies for a loan, are examples of psychological costs. Psychological costs are incurred by some customers even when positive changes are introduced in service consumption. For example, when airlines started offering online reservation, customers were not comfortable about giving out their credit card numbers to reserve the ticket.
 - d. **Convenience costs** involve the inconvenience faced by customers in consuming the service and is different from the time, search and psychological costs. For example, when a resort or a hotel opens a spa beyond the outskirts of the city (say 20 km away from the city limits), customers are put to some inconvenience in traveling to the resort and back. They will include this inconvenience cost as a non-monetary cost involved in consuming the service.
- **Price, a basis of comparison for customers:** Every consumer has some reference price in mind when purchasing a product. The reference price can be an amount paid by the customer in the past for the same service or the price paid by a friend or acquaintance for a similar service. The pricing structure in services is quite complicated, as a wide variety of services can be offered due to the flexibility involved. For example, when a customer desires a room in a hotel, he can reserve either an AC or a non-AC room with a double

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or single bed. In addition, the prices vary for each combination. In addition, the intangible feature of services makes it more difficult for customers to assess the value of various services and compare them. For example, it is difficult to compare the charges of two news channels, say TimesNow, India Today or News18 that serve customers the same news on a daily basis, since aspects like analysis, interpretation and presentation varies, it is impossible to make a price comparison.

- **Prices vary with demand:** The pricing of services also varies with the demand for a service. This demand depends on the seasonal variations either directly or indirectly. For example, Goa Tourism Development Corporation Ltd. has different off-season charges for its various tour packages. Similarly, hotels can vary their room charges for AC rooms during the season and off-season.

To conclude price perception is one of the important factors in the consumer buying process of services. Price is an important signal and serves as driving force for favorable purchase decision. Pricing strategy must therefore achieve the objective of managing price perceptions effectively.

13.4 Pricing Objectives

The pricing strategies of a firm depend largely on the objectives of the firm and the way it wants to position itself in the market. Therefore, marketers should have a clear understanding of the company objectives and market conditions to design an effective pricing strategy. Let us now discuss some of the common objectives of a company.

Survival: When a company fails to manage its business in terms of failure to meet the changes in consumer needs and expectations, or beating the competition, it sets survival as its basic objective with a hope of reviving later. It lowers the prices of its products or services in order to cover its variable costs and a part of its fixed costs and goes easy on its margins. Companies thus sacrifice their profitability by reducing their prices so as to sustain themselves in the market. For example, an airline that is unable to withstand the aggressive competition in the market reduces its fares temporarily in order to stay on in the business. However, it could later try to improve its position by developing new strategies to beat the competition and thrive in its business.

Present profit maximization: A company sets this objective with the aim of increasing its current profits from the business. Companies adopting this objective analyze the demand and costs at different prices and select a price that will result in high current profits, return on investment, or cash flows for a certain time period. For example, say a hotel enjoys 100 per cent occupancy and 10 per cent profits if it fixes its room tariff at ₹ 800 per day. If it changes the room charges to ₹ 1000 per day, it enjoys only 90 per cent occupancy. Assuming that

the hotel has 100 rooms, the hotel makes ₹ 80,000 revenue when price is ₹ 800 and makes ₹ 90,000 revenue when price is ₹ 1,000. If it further increases its room charges to ₹ 1200 per day, the occupancy reduces to 60 per cent and the overall revenue reduces to ₹ 72,000 and profits too decrease. Based on this data, the hotel maximises profits at a price of ₹ 1000.

Present revenue maximization: A company may set the prices of its services so as to maximize the revenues from sales. Companies adopting this objective believe that by initially setting low prices, the company can increase its market share. This, in turn, can lead to economies of scale and increased profits in the long-term. For example, cellular service providers in India are setting lower prices than competitors in the industry to gain a larger market share. However, companies should be careful not to lower the prices so much that sustenance becomes difficult.

Prestige: A company that wants to position its services in the premium genre might charge very high prices from its customers. This pricing is mostly practised by high-scale hotels who charge high prices to attract elite class customers.

Product quality leadership: A company that aims to position itself as a superior quality service provider charges high prices to compensate for the costs incurred in providing premium quality services. Huge investments made in research and development to provide additional benefits and incorporate state of the art technology also justify the high prices charged. For example, some health clubs charge higher prices than gyms or fitness centers for their services.

Apart from the above objectives, a company can also price its services in such a way as to make the market unattractive for the competition, to attract customers for a short period, etc. The pricing objectives are basically dependent on various factors like,

- How would a company like to position its services?
- Are the prices chosen compatible with the corporate objectives?
- How do the competitors react to the price changes made by a company?
- What is the duration of the lifecycle of the services?
- How does the elasticity of demand fluctuate?
- Is the service capacity over utilized or underutilized?

Example: Taj Hotels Charging Premium Prices for Meeting Pricing Objective for Prestige

Taj Hotels is a chain of luxury hotels and a subsidiary of the Indian Hotels Company Limited. Across India and abroad they cater to Elite customer segment. India's largest hospitality company, Indian Hotels Company (IHCL) announced that its brand Taj achieved the distinction of being number one strongest Indian brands by Brand Finance in their 'India 100 2022' report.

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Taj achieved a brand strength index (BSI) score of 88.9 out of 100 and a corresponding elite AAA brand strength rating. They charge premium or high pricing and customers perceive it as a prestige to pay high price for quality luxury services provided by Taj Group of Hotels.

Source: Business Today Desk, (June 22). "Taj ranked as India's 'strongest' brand for second time". <https://www.businesstoday.in/latest/corporate/story/taj-ranked-as-indias-strongest-brand-for-second-time-336215-2022-06-03> (accessed on 14.06.22)

Activity 13.1

A prominent local retailer in Coimbatore, entered mall management services by opening a chain of malls in Tamil Nadu. It leases its mall to various consumer product manufacturers and service providers. While deciding the leasing rate for the stores in the mall, what pricing objective will the company seek to implement?

Answer:

13.5 Approaches to Pricing Services

Generally, organizations can design many pricing strategies and this can be quite confusing and misleading for a company. To get a clear idea, organizations can group these strategies under three main headings, namely, cost-based pricing, demand based pricing and competition based pricing. Let us now discuss all these three strategies in detail.

13.5.1 Cost-Based Pricing

Cost-based pricing can be better understood with a basic understanding of direct and indirect costs. Direct costs are those that are incurred on producing a product or service and can be attributed to the product or the service. For example, the cost incurred on providing telecom service from an exchange is a direct cost for the exchange. Direct costs are associated with the fundamental existence of the business. Indirect costs cannot be associated with the production or with the existence of products or services, but are necessary to run the business. The cost incurred by a telecom service provider in paying the license fee to serve the customers of a region is an example of indirect costs. These indirect costs are also known as 'overheads'. Let us now discuss the types of pricing under cost-based method.

Basic cost covering / cost plus pricing

This is the easiest way of pricing a service. This process allows a service provider to cover all the direct costs and gain a profit. However, indirect costs are not covered in this method and the needs of the customer are not taken seriously.

Contribution pricing

With the help of contribution pricing, a service provider can cover all the direct costs (per product / service offering) and can further contribute a certain amount towards covering the indirect costs and making a profit. This contribution can be spread over to overheads and services for a wide range of service offerings.

Working back method (Expected return)

In this process, a service provider first estimates the cost of producing a particular service and the amount of profit he/she would like to gain. Then he/she works back and sets the price of the service. If the price of the service is too high compared to that of other service providers, and if the price has a substantial effect on the demand for the service, then the service provider can add value to the service to make the customers feel that it is worth-paying the extra amount for the service. For example, if hotel A charges ₹ 500 for reserving a room through the Internet and other hotels in the same area charge ₹ 300, then hotel A can provide additional facilities like a pick-up facility from the airport so that customers do not find the reservation charges too high.

13.5.2 Market-oriented Pricing or Demand-based Pricing

In demand-based pricing, service providers study the variations in demand with changes in prices. Further, they also observe the changes in demand for each market segment. This type of pricing is mostly related to customers' behavior in purchasing services. Let us now discuss the various methods of demand-based pricing.

Market skimming

Market skimming can be used by service providers who offer unique services to the market. These service providers have an opportunity to charge high prices and earn more profit margins until other service providers come up with similar service offerings in the market. For example, when the home-delivery service for pizzas was introduced in the market, the charges for delivery were high until other service providers started offering the same service. Similar was the case with cyber cafes, which initially charged exorbitant prices for their services.

Penetration pricing

Penetration pricing is used by service providers when new services are introduced in the existing market or when existing services are introduced in new markets. Initially, the prices of these services are kept low so that customers tend to re-purchase from the same service provider and thus become loyal over time. Even if the service provider increases the prices of these services at a later point of time, customers tend to continue with him/her and do not switch to other service providers. For example, Reliance India Mobile entered the mobile service market with this pricing strategy as it aimed to penetrate the market and gain a good market share.

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Price discrimination

Price discrimination can be done in two ways. The first type is related to time i.e., charging different prices at different times. For example, Internet service providers like Sify offer their services at low prices during periods of low demand. The second type of price discrimination is related to the type of customers. For example, Airtel offers lower prices to students to encourage them to opt for its cellular services.

Example: Price Discrimination @ IRCTC

IRCTC & Ministry of Railways came up with a new initiative every day to differentiate pricing for passengers in urgent need of travel. It adopted price differentiation for customers based on their urgency. It charges high price in Tatkal Scheme than normal reservation for those who are willing to pay more due to urgency. It also has 'Premium Tatkal scheme' with very high dynamic pricing for those who want to book tickets on the day of travel or before the travel. The ticket rates are dynamic and vary depending upon the availability and booking rates of the available seat. IRCTC shows price discrimination and attracts customers who can pay more.

Source: RailRecipe, (2021). "Premium Tatkal Timing: Booking Rule, Timing and More", <https://railrecipe.com/blog/premium-tatkal-timing-booking-rule-and-more/> (accessed on 14/6/22).

Pricing to meet customer expectations

This method involves meeting customer expectations of price or product benefits with the help of frequent market research activities.

This process is helpful when introducing services in a new market or when a unique service is being offered to the customers. This helps the service providers know if the prices set by them meet the customer standards and then they can change the prices accordingly. The service providers are required to check the suitability of price on a regular basis.

Discounts and sales

Discounts can be used to attract a segment of customers. For example, in April 2019, Walmart owned Myntra offered discounts to customers if they commit not to return products that they purchase. These discounts are expected to reduce return of sold products and ensure cost reduction and greater revenue to the company. While the discounts offered by Myntra is to reduce return of products, the regular yearly discounts offered by Flipkart and Amazon during Diwali season has become an annual event and customers plan their purchase during Diwali season.

13.5.3 Competition-based Pricing

This strategy involves observing the competitors' pricing strategies to design one's own pricing structure. Further, knowledge of the costs and pricing strategies

of competitors of a service provider, provides with additional information on the pricing expectations of the customers. Let us now discuss the various methods of competition-based pricing.

Destroyer pricing

This strategy is used to throw competitors out of business by setting the lowest prices in the market. The prices are so low that competitors find them difficult to match, and they cannot survive in the market if they reduce their prices to the same level. Service providers should be careful while using this strategy because the company initiating this strategy might be thrown out of business in case the competitors are very strong and can survive the price cuts.

Price matching / going rate pricing

This strategy is employed by service providers who want to play it safe in a mature market. They price their services at around the same level as their competitors. For example, almost all cyber cafes offer their services in the same price range today, unless they have some additional features like a coffee bar attached. On the other hand, service providers who offer unique services have the power to set prices and the competitors have no choice but to follow them.

Price bidding / close bid pricing

This strategy is mostly adopted by construction, building, and manufacturing services. It involves sending bids to the company that needs the service and the company selects the bid that will satisfy its requirements best. For example, if the government requires the services of a builder, it gathers bids from different service providers and selects the most suitable one.

Check Your Progress – 1

1. Which of the following names apply to the price charged for advertising and legal services, respectively?
 - a. Tariff, fees
 - b. Tariff, commission
 - c. Brokerage, fees
 - d. Commission, fees
 - e. Payment
2. Which of the following is not an issue in the pricing of services?
 - a. Positioning
 - b. Demand levels
 - c. Competitor pricing
 - d. Supply
 - e. Availability of raw materials

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3. When mobile telephone services (cell phones) were introduced in India, the service providers charged over ₹16 per minute. What type of demand-based pricing were the service providers using in the introductory stage of the service?
 - a. Market penetration
 - b. Market skimming
 - c. Price discrimination
 - d. Discounting
 - e. Market differentiation
4. Which of the following is not a type of demand-based pricing strategy?
 - a. Market skimming
 - b. Penetration pricing
 - c. Destroyer pricing
 - d. Discounted pricing
 - e. Psychological pricing
5. What type of pricing strategy is used when a service provider adopts price bidding?
 - a. Cost-based pricing
 - b. Market-oriented pricing
 - c. Competition-based pricing
 - d. Demand-based pricing
 - e. Affordability pricing
6. With BSNL slashing prices every now and then, it has become very difficult for private players to retain their market share. Forced to slash their prices to beat competition leaves them with lower margins as compared to previous times. What sort of pricing is BSNL practising?
 - a. Market skimming
 - b. Penetration pricing
 - c. Destroyer pricing
 - d. Discounts and sales
 - e. Psychological pricing

13.6 Incorporating Perceived Value into Service Pricing

How does a customer assess the value of a service offered by a company in relation to its price? What are the various attributes that create this value? Answers to these questions help a service provider offer services that provide the maximum value to the customers at an affordable price. The perceived value of a service is the perceived benefits less the perceived costs, for the customer.

Companies should try to quantify the monetary and non-monetary value to the customers, as it will help them price their product competitively and attractively in the market.

The image of the service organization, physical evidence that substantiates the quality of the service, behavior of the service personnel, and the convenience, quality, and value of the service compared to competitors' services create the value of a particular service in the customers' minds. Further, the process adopted by service companies to communicate their offers can also add value to the customers. For example, some companies introduce certain contests during the promotion of a service and the winners of these contests are given concessions in the prices of the services. The price charged for a service by a company should reflect the value derived by the customers and should be attractive to the customers. However, some service customers require the assistance of service personnel to express their needs better and thus add value to their services. For example, potential insurers take the help of insurance agents to express their needs and invest in a policy that offers more value.

Example: Incorporating Perceived Value into Service Pricing @ Rolls Royce

Consider luxury car maker Rolls-Royce, which made a debut film, showcasing its highly contemporary new visual identity/physical evidence at their new flagship luxury Maison in London and boutique in Shanghai Puxi. They planned this before the global rollout across the brand's network of 131 showrooms in 40 countries worldwide during 2021. It created a very high perceived value of Rolls Royce brand in customers' mind through such great physical evidence and other key elements. The pricing of Rolls Royce incorporates the high perceived value by customers and it arrives at high pricing for its products.

Source: Entmag. (May, 2021). "The New World of Luxury: Rolls-Royce Presents Film of New Showroom Visual Identity" <https://www.entmag.org/luxe-motoring/2021/5/26/the-new-world-of-luxury-rolls-royce-presents-film-of-new-showroom-visual-identity> (accessed on 14/6/22)

13.7 Value Strategies in Pricing of Services

How can a service provider improve his pricing strategies so that they reflect the value delivered to the customers? In order to answer this question, service providers should be in a position to determine what constitutes value for their target customers. They should then communicate this value to the customers through their pricing structure. There are four strategies that can be used to create and communicate value to the customers. These strategies can be used in isolation or in combination. Satisfaction-based pricing, convenience pricing, relationship pricing, and, efficiency pricing are the four strategies and are discussed in detail here.

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13.7.1 Satisfaction-based Pricing

This pricing method is adopted by service companies to remove the uncertainty in the minds of customers caused by the intangible characteristic of services. Service companies try to remove this uncertainty by adopting the strategies of service guarantees, benefit driven pricing, flat rate pricing, and convenience pricing. Let us now discuss these three:

Service guarantees

Service customers feel assured and satisfied when companies provide them with service guarantees. This helps, as it clears up a certain amount of uncertainty. For example, when a customer orders a Domino's pizza, he is assured of the delivery time as he is guaranteed a free pizza by the company if it does not meet its thirty-minute deadline.

Example: Service Guarantees @ Zomato

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

Source: Shreya Bose, (Mar, 2022) "Zomato Will Deliver Food In 10 Minutes! Talks On With Cloud Kitchens, Restaurants" <https://trak.in/tags/business/2022/03/19/zomato-will-deliver-food-in-10-minutes-talks-on-with-cloud-kitchens-restaurants/> (accessed on 14/6/22).

Benefit driven pricing

Benefit driven pricing enables customers to derive the maximum value from the manner in which they use the service. For example, if a service provider sets up his photocopier in an office and charges them for the number of pages photocopied and not for renting the photocopier, it is benefit driven pricing. In such cases, there is a counter fixed on the machine that keeps track of the number of pages photocopied and the office pays for them at the end of the month. Here, the service provider's aim is to deliver the core benefits to the customers and charge them for the same.

Flat rate pricing

Flat rate pricing can be used in service companies that cannot develop a predictable pricing structure and where the costs are inefficiently managed owing to the labor intensive nature of the business. Flat rate pricing is adopted by a company if it satisfies the following:

- The company has a competitive flat rate to attract customers,

- It should have an efficient costing system that provides a cushion for unanticipated costs,
- It has extremely good relations with customers so that it gets more opportunities that might have been incurred in a service interaction.

13.7.2 Convenience Pricing

Convenience based pricing aims to improve on the convenience to customers in the process of consuming services. For example, home-delivery of pizzas, home-delivery of groceries from the supermarket, etc., increase the convenience to customers in consuming the service. Service providers can also gain a competitive advantage by offering these services and can add value to the services offered.

13.7.3 Relationship Pricing

Relationship marketing requires service providers to maintain healthy relationships with the customers in order to retain them for longer periods. It also involves attracting new customers and nurturing a good relationship with them. The service provider is assured of repeat business and the customers are also benefited in the process as they find a dependable service provider. However, most of the strategies used by service providers are copied by their competitors. Therefore, service providers should closely analyze customers' needs and competitors' moves to decide on the incentives they would like to offer to the customers. Long term contracts and price bundling are two methods that are followed by service providers under this strategy.

Long term contracts

Service providers often adopt this strategy to maintain relationships with existing customers and to attract new ones. In this strategy, service providers often offer price and non-price incentives to customers for entering into long term contracts with them. For example, Shopper's Stop offers a (First Citizen) membership to its regular customers, which entitles them to special discounts and schemes offered by the retail store. The retail store gets repeat business, with customers going back to them to avail of their special offers and discounts.

Price bundling

Companies that adopt the price bundling strategy offer two or more services at a time to their customers. This enables service providers to reduce the costs involved in delivering a second service to another customer. Further, it offers convenience to customers as they need not go through the whole process or visit another service provider for consuming another service. Also, bundling increases the number of interactions between the service provider and the customers, thus improving their relationship.

13.7.4 Efficiency Pricing

Efficiency pricing is based on understanding the nature of costs, monitoring them, and trying to decrease or eliminate them wherever possible, so that the savings

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can be transferred to the customer. Service providers can offer services at prices much lower than the market prices to customers, with the help of efficiency pricing. Activity based costing is a popular method employed by many companies to adopt the efficiency pricing strategy. This method analyzes each activity involved in service production till delivery and tries to restructure activities so as to reduce costs and drop activities that cannot add any value to the customers. Further, service companies that can improve efficiency through innovation gain a competitive advantage in the market.

Activity 13.2

With most ad agencies moving from the flat 15 per cent commission to a fee-based revenue arrangement, advertising agencies such as Contract are seeking ways to improve pricing. The ways include offering value-added services such as consulting. This is a step further than the account planning services of a traditional ad agency. What type of pricing strategies can Contract use to reflect the additional value delivered to customers?

Answer:

13.8 Issues in Pricing of Services

Pricing is a very important element of the marketing mix as the sales and profits of a firm depend to a large extent on the pricing structure of its products or services. A company should develop its pricing structure after careful consideration of factors like customer preferences and their buying patterns, legal factors, and the competitor's pricing structure. Further, the pricing structure should be compatible with the company objectives. For example, when an organization aims to position itself as a premium service provider, it cannot offer low-quality services at cheaper prices. We shall now discuss some of the factors that should be considered when developing a pricing strategy.

- **Costs of production and break-even analysis:** The pricing structure for any service basically depends on the costs incurred by the service provider on producing and delivering it. Fixed costs, variable costs, and overheads are the general types of costs incurred by any company. Break-even analysis helps a service provider determine the minimum number of service packages to be sold to recover the production and delivery costs of the service.
- **Demand levels:** The pricing decisions of any company depend to a large extent on the demand for its products or services. Service providers should analyze the various market factors responsible for fluctuations in demand. The economic environment and the customers' spending patterns, the present life cycle stage of the service, the effect of seasonal variations, the substitutes

available in the market, competition in the market and the promotional activities of a company are some of the determinants of customer demand. Therefore, service providers should find out which of these factors influence the demand levels and to what extent. This helps them price their service accordingly.

- **Competitor pricing:** Service providers should have an idea of the pricing structure of competitors, especially in the case of price sensitive services. For example, if a photographer charges ₹ 100 for developing and printing a roll and another photographer a few yards away charges ₹ 110, not many would bother about the difference. However, when a bank offers a housing loan at an 8 per cent interest rate and another bank offers it at 9 per cent interest rate, customers would certainly be attracted to the former. Service companies also focus on other elements of the marketing mix to win over customers. At the same time, a company cannot set very high prices for its services unless its offering is unique and distinct from those of competitors.

Example: Pricing Issues Resolved @ KFC by Adapting Competitor Pricing

Example: Initially Kentucky Fried Chicken (KFC) had only 3 local outlets and was trailing in the Indian market as compared to its competitors like McDonald's, Pizza Hut and Domino's. A combination of strategies, including competitor pricing techniques, educating customers, designing a menu to appeal to the palates of the sophisticated, urban Indian customer base, etc. catapulted KFC as the 'fastest-growing' leading fast-food chain in India by 2022. As of May 2022, KFC had 623 outlets all over India.

Source: Scapehero, (May 2022). "Number of KFC locations in India in 2022". <https://www.scrapehero.com/location-reports/KFC-India/> (accessed on 14/6/22)

- **Marketing mix:** The other elements of the marketing mix have an influence on the price. The price should be an indication of the value derived by the customer, as already discussed. Price sensitive services should be communicated properly to the customers through suitable promotional activities. Further, price discounts, sales, price-cuts, etc., should also be communicated to the customers. The place where premium services are offered is also linked to the price a company can charge as also the quality of service offered by service personnel. For example, the staff at the Ritz Carlton offer premium customer service and charge high prices. Finally, the process and the physical evidence should reflect the price charged and the value offered by the service.
- **Regulatory factors:** Government policies and guidelines of trade associations influence the prices charged by companies in the industry. For example, the Department of Telecommunications (DoT) regulates the prices charged by BSNL for telecommunications in India.

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- **Positioning:** The customer perceptions of a service, his/her evaluation of the service standards and his/her assessment of the service value also depend on the positioning strategy adopted by a company. For example, if a company positions its services in the premium range, then customers perceive them to be of premium quality and do not mind paying a higher price for obtaining the maximum value.

13.9 Revenue Management Techniques

Revenue Management Techniques use demand and supply economics to leverage and optimize revenue from the investment sunk in fixed and perishable resources. The airline industry in US adopted Revenue Management Techniques after the government deregulation in the early 1980s. Literally, every hotel, star hotels particularly, use revenue management because their fixed costs are high. For revenue management techniques to be valid, the following conditions need to exist.

- Fixed quantity of resources on hand for sale
- The resources are perishable and hence, get wasted if not consumed.
- Possible to discriminate amongst consumers and charge differential prices

13.9.1 Pricing for Industries having High Fixed Costs Compared to Variable Costs

All the three conditions prescribed in the previous paragraph, apply to hotels. A five star hotel has a fixed number of rooms to offer for stay to their customers. If the rooms go vacant, the revenue lost is lost forever. Hence, hotels may face huge losses when the room occupancy is very low during off season. The hotels have business customers who are quality conscious and price insensitive and tourists who are willing to compromise on quality but highly price sensitive. It is, therefore, common for players in this industry to offer lower rates to price sensitive tourists to increase the occupancy rate and maximize revenue.

Airlines have to make a trade-off between running flights with vacant seats and running fewer flights and face the resultant loss of revenue. When fuel prices were low and component of fixed costs in total costs were very high, it made sense for Airlines to operate more flights to optimally use the fixed assets.

Example: Airline Travel Industry Failure Due to High Pricing

Airline industry was characterized by having high 'fixed costs' compared to 'variable costs'. In 2022, as airline travel ramped up again, the customer dissatisfaction too increased. According to the J.D. Power 2022 North America Airline Satisfaction Study, the overall average airline passenger satisfaction score declined 22 points from last year's score of 820 out of a scale of 1,000.

Contd....

Still, that score of 798 was the second-highest average score in the survey in the past five years. The reasons for dissatisfaction are increasing fares, more crowded planes and airports and relatively fewer aircraft flying. The Airlines industry was the most affected due to COVID and still not able to recover the high fixed costs.

Source: Donna M. Airolidi, (May, 2022). "Satisfaction Drops 22 Points in J.D. Power Airline Survey". <https://www.businesstravelnews.com/Transportation/Air/Satisfaction-Drops-22-Points-in-JD-Power-Airline-Survey> (accessed on 14/6/22).

13.9.2 Price Discrimination and Segmented Pricing

As pointed out earlier, revenue management techniques can be successful only if market segmentation based on price sensitivity is possible. Hence, the first task here would be to effectively segment the market. The hoteliers know that they experience high and low demand during peak season and off season time periods. Unlike hotels in urban areas, hotels located in hill resorts experience this phenomenon to a greater extent. Thus, to overcome the seasonal fluctuations in demand, customers can be categorized into price sensitive and price indifferent segments.

The next step is to make differentiated offers depending on willingness and affordability to pay. Hotels know by experience that consumers are willing to pay higher rates for services such as the following:

- Peak season stays
- Rooms with better views like mountain or river/ocean views
- Larger rooms or suites and rooms that have some special features.

Thus, it is possible to segment customers and charge differential rates and also have revenue inflows throughout the year. For hotels and airlines, other opportunities like business and academic conferences, group booking by travel agents, web site marketing and local attractions also create revenue management opportunities.

13.9.3 Activity-Based Costing to Determine Cost of Delivering Services

Activity Based Costing (ABC) was used in the manufacturing sector in the 1970s and 1980s and the concept became popular after Robert Cooper and Robert Kaplan published an article on ABC in the *Harvard Business Review* (1991). Traditional approach assumes that services and products consume resources. ABC approach is based on the premise that products and services consume activities and activities in turn consume resources.

Activity Based Costing approach aims at realistic and equitable allocation of the costs to the various services and products produced and delivered by the organization.

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Costs can be direct or indirect. Material costs and labor costs are examples of direct costs because they can be directly traced to the product or service for which they were used. Indirect costs are overheads that need to be allocated to all the products for which the multi-purpose resource was spent. Typically allocating the expenditure incurred on overheads such as marketing, distribution and administration have been a matter of controversy. The cost allocation in ABC approach goes through a procedure as given below.

- Identification of the group of activities or ‘cost pools’ a product or service must pass before it is produced and delivered to customer.
- Estimation of the cost of operating the activities identified.
- Identification and calculation of the cost drivers for these activities. These are based on the way in which these activities are consumed. If it costs ₹ 10 to invoice a customer and one customer generates 10 invoices, then the total cost attributed to the customer is ₹ 100.

Advantages of ABC approach

The following are the advantages:

1. ABC approach yields cost information based on activities consumed. In organizations, where activities are more important, this method enables a realistic allocation of costs.
2. It enables insights on how activities and revenues have a cause and effect relationship.
3. Further ABC approach helps managers to slice into the business and extract cost information of different units, like individual clients or group of clients, departments, product/service or group of products, distribution channel etc. When cost information is available from multifarious dimensions it is easy to get a close-up view and identify profitable and unprofitable areas.
4. Since allocation of costs is based on cost drivers, the system is easy to apply and compute. However, the effectiveness of the system depends on the identification and computation of cost drivers.

ABC analysis: Application in service sector

Activity-based costing is more suitable in the case of services due to the following reasons.

Services are activities wherein it is difficult to separate production and consumption because often both happen simultaneously. Customers are categorized into different segments based on nature of service rendered and also in terms of their value to the organizations. Customer profitability can be ascertained accurately only if the cost of activities is realistically allotted to individual consumers or consumer groups.

The production system in the case of services has activities that are visible and invisible to customers. For instance, systems support, management support and physical support are the invisible components. It is appropriate that the cost of these activities is accurately allocated to various service offerings and customer groups to ascertain customer profitability.

CRM systems can be implemented only if life time value of the customer is calculated and augmented offers are made to those customers who bring in a higher share of net revenue. The spending on such customized offers depends on the profitability. Service organizations may have customers who may bring revenue inflows, but the overall profitability of such customers may be low because of disproportionately high using up of activities. Public sector banks in India have identified that pensioners tend to take up more time of bank staff for small tasks like cash withdrawal during peak hours. Hence, it makes sense for banks to encourage them to use ATMs. ABC approach throws light on these hidden aspects.

Let us consider the example of hospitals. All departments make use of operation theaters, Intensive care unit etc. The true cost of serving a patient can be ascertained only if ABC system is used. It may be observed that ABC system is more relevant in the case of services like hospitals and hotels because of the huge investments in fixed assets. Also, where the business needs to be sliced and a closer view of the profitability of different customers/customer groups or products or segments need to be viewed, ABC analysis is more suitable.

To conclude it can be said that ABC system of costing is a useful system for service industries particularly. Since it is easy and simple to allocate costs to and assess the profitability of various groups or segments, this method is more suitable to services, which is people oriented.

Activity 13.3

Republic TV launched 'Republic Bharat', a new Hindi news channel just before the commencement of national elections in the first quarter of 2019. In the cluttered Indian television channel market with well-entrenched names like NDTV, ZeeNews, AajTak, and StarNews, Arnab Goswami, the head of Republic TV wants to establish it as a top Hindi news channel both in urban and rural Hindi speaking markets. As the channel is free-to-air, its only source of revenue is advertising. Therefore, while pricing the advertising space in the channel what are the various factors that the channel management must keep in mind?

Answer:

Check Your Progress – 2

7. Which of the following is not a cost-based pricing?
 - a. Cost-plus pricing
 - b. Contribution pricing
 - c. Working back method
 - d. Penetration pricing
 - e. Marginal pricing
 8. Most cyber cafés offer their services in the same price range. What type of pricing strategy are these players following?
 - a. Going rate pricing
 - b. Close bid pricing
 - c. Discount pricing
 - d. Penetration pricing
 - e. Affordability pricing
 9. Which of the following pricing strategies includes flat-rate pricing?
 - a. Convenience pricing
 - b. Efficiency pricing
 - c. Satisfaction-based pricing
 - d. Relationship-based pricing
 - e. Skimming pricing
 10. Which of the following pricing strategies is used by service companies without predictable pricing structure and where the costs are inefficiently managed owing to the labor intensive nature of the business?
 - a. Flat-rate pricing
 - b. Benefit driven pricing
 - c. Service guarantees
 - d. Convenience pricing
 - e. Going rate pricing
 11. Which of the following pricing strategies adopted by companies, offer two or more services at a time to their customers, thus enabling service cost reaction while delivering a second service to another customer?
 - a. Efficiency pricing
 - b. Price bundling
 - c. Convenience pricing
 - d. Benefit-driven pricing
 - e. Flat rate pricing
-

13.10 Summary

- Pricing is an important element of the marketing mix that brings in revenues and profits.
- The success of a service depends on the pricing strategy developed or adopted by the company. However, it is easier for customers to evaluate the value derived from goods, when compared to services.
- There are four ways in which prices of services are perceived to be different from those of goods. Service customers perceive the price as an indicator of the quality offered and they include non-monetary costs like time costs, search costs, convenience costs, and psychological costs involved in consuming the services, while estimating their value. There is difficulty in comparing the prices of services due to their specific characteristics such as intangibility. Finally, prices vary with fluctuations in demand.
- A company's pricing structure should reflect its long-term and short-term objectives.
- A company might price its services to survive in the market, to maximize the current profit, to maximize the current revenues, or to obtain a prestigious position or a product quality leadership.
- In order to achieve the pricing objectives, a company might choose cost-based pricing, demand-based pricing, or competition-based pricing.
- Further, a service company should analyze how far the customers perceive that the value derived from the consumption of its services is worth the price paid.
- Service companies should also understand the various ways in which customers attach value to the services for the price paid. They can offer service guarantees and adopt benefit driven pricing or flat rate pricing to satisfy their customers. They can also enter into long-term contracts or opt for price bundling in order to develop their relations with their customers. A company can also adopt efficiency-based pricing to offer the maximum value to their customers.
- Finally, the factors that influence the prices of services should be studied carefully. The costs of production and break-even analysis, demand fluctuations, competitor pricing, the other elements of the marketing mix, namely, product, place, promotion, people, process, and physical evidence, regulatory factors, and positioning are some of the issues that should be considered when developing a pricing strategy.

13.11 Glossary

Activity-Based Costing: It is a popular method employed by many companies to adopt the efficiency pricing strategy. This method analyses each activity involved in service production till delivery and tries to restructure activities to reduce costs and drop activities that cannot add any value to the customers.

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Basic Cost Covering/Cost plus Pricing: This process allows a service provider to cover all the direct costs and gain a profit. However, indirect costs are not covered in this method and the needs of the customer are not taken seriously.

Benefit-Driven Pricing: It enables customers to derive the maximum value from the way they use the service. Here, the service provider's aim is to deliver the core benefits to the customers and charge them for the same.

Competition-Based Pricing: This strategy involves observing the competitors' pricing strategies to design one's own pricing structure. The knowledge of the costs and pricing strategies of competitors provides a service provider with additional information on the pricing expectations of the customers.

Contribution Pricing: With this, a service provider can cover all the direct costs (per product/ service offering) and can further contribute a certain amount toward covering the indirect costs and making a profit. This contribution can be spread over to overheads and services for a wide range of service offerings.

Convenience Costs: They involve the inconvenience faced by customers in consuming the service and are different from the time, search, and psychological costs.

Convenience Pricing: It aims to improve on the convenience to customers in the process of consuming services.

Destroyer Pricing: This strategy is used to throw competitors out of business by setting the lowest prices in the market. The prices are so low that competitors find them difficult to match, and they cannot survive in the market if they reduce their prices to the same level.

Direct Costs: These are the costs incurred on producing a product or service and can be attributed to the product or the service.

Efficiency Pricing: It is based on understanding the nature of costs, monitoring them, and trying to decrease or eliminate them wherever possible so that the savings can be transferred to the customer.

Flat Rate Pricing: It can be used in service companies that cannot develop a predictable pricing structure and where the costs are inefficiently managed owing to the labor-intensive nature of the business.

Long-Term Contracts: In this strategy, service providers often offer price and non-price incentives to customers for entering into long-term contracts with them. Service providers often adopt this strategy to maintain relationships with existing customers and to attract new ones.

Market-Oriented (Demand-Based) Pricing: In this method, service providers study the variations in demand with changes in prices. Further, they also observe the changes in demand for each market segment.

Market Skimming: Service providers charge high prices and earn more profit margins until other service providers come up with similar service offerings in the market.

Penetration Pricing: The prices of the services are kept low so that customers tend to re-purchase from the same service provider and thus become loyal over time.

Price Bidding / Close Bid Pricing: This strategy is mostly adopted by construction, building, and manufacturing services. It involves sending bids to the company that needs the service and the company selects the bid that satisfies its requirements best.

Price Bundling: Companies that adopt the price bundling strategy offer two or more services at a time to their customers. This enables service providers to reduce the costs involved in delivering a second service to another customer.

Price Discrimination: This can be done in two ways --- the first type is related to time, i.e., charging different prices at different times, and the second type is related to the type of customers, i.e., charging different prices for different types of customers.

Price Matching / Going Rate Pricing: This strategy is employed by service providers who want to play it safe in a mature market. They price their services at around the same level as their competitors.

Pricing to meet Customer Expectations: This method involves meeting customer expectations of price with the help of frequent market research activities.

Psychological Costs: These are borne by the customers either at the time of buying the services or at the time of consuming them.

Relationship Pricing: Relationship marketing requires service providers to maintain healthy relationships with the customers in order to retain them for longer periods. It also involves attracting new customers and nurturing a good relationship with them. Long-term contracts and price bundling are two methods that are followed by service providers under this strategy.

Satisfaction-Based Pricing: This pricing method is adopted by service companies to remove the uncertainty in the minds of customers caused by the intangible characteristic of services. Service companies try to remove this uncertainty by adopting the strategies of service guarantees, benefit driven pricing, and flat rate pricing.

Search Cost: This involves the efforts made by a customer to recognize and choose the required service.

Time Cost: This involves the time spent by consumers in co-producing the service or in waiting to receive the service.

Working Back (Expected Return) Method: In this process, a service provider first estimates the cost of producing a service and the amount of profit he/she would like to gain. Then, he/she works back and sets the price of the service. If the price of the service is too high compared to that of other service providers,

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and if the price has a substantial effect on the demand for the service, then the service provider can add value to the service to make the customers feel that it is worth paying the extra amount for the service.

13.12 Self-Assessment Test

1. The pricing strategies of a firm depend largely on its objectives and the way it wants to position itself in the market. Explain the important characteristics of pricing in services.
2. The pricing of services is different from the pricing of goods in many ways. Discuss the differences in customer perceptions of price between goods and services. Explain the objectives of pricing services by companies.
3. The pricing strategy developed by a company can either help the company reap the maximum profits or throw it out of business. What are the various approaches to pricing services? Explain in detail the issues in pricing of services.
4. “A service company should analyze how far the customers perceive that the value derived from the consumption of its services is worth the price paid.” Explain this statement. What strategies can be used by companies to create and communicate value to the customers?

13.13 Suggested Readings/Reference Material

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

13.14 Answers to Check Your Progress Questions

1. (d) Commission, fees

The price charged for advertising is known as commission; for boarding and lodging services as tariff; for legal services and healthcare as fees; and for share or stock services as brokerage and commission.

2. (e) Availability of raw materials

The pricing objectives are basically dependent on various factors like positioning, the competitor pricing, compatibility of prices with the corporate objectives, duration of the lifecycle of the services, fluctuations in the elasticity of demand, and the underutilization or overutilization of the service capacity.

3. (b) Market skimming

In the given example, the service providers adopted the market skimming pricing strategy. Market skimming can be used by service providers who offer unique services to the market. These service providers have an opportunity to charge high prices and earn more profit margins until other service providers come up with similar service offerings in the market.

4. (c) Destroyer pricing

Market skimming, penetration pricing, price discrimination, pricing to meet customer expectations, discounts and sales, are all types of demand-based pricing strategies. Destroyer pricing is a competition-based pricing strategy.

5. (c) Competition-based pricing

Competition-based pricing strategy involves observing the competitors' pricing strategies to design one's own pricing structure. The various methods of competition-based pricing are destroyer pricing, price matching / going rate pricing, and price bidding / close bid pricing. Price bidding involves sending bids to the company that needs the service and the company selects the bid that will satisfy its requirements best.

6. (c) Destroyer pricing

BSNL is practising destroyer pricing strategy. Destroyer strategy is used to throw competitors out of business by setting the lowest prices in the market. The prices are so low that competitors cannot survive in the market if they reduce their prices to the same level.

7. (d) Penetration pricing

Basic cost covering / cost plus pricing, contribution pricing, and working back method or expected return are the types of cost-plus pricing. Penetration pricing is a method of market-oriented or demand-based pricing.

8. (b) Going rate pricing

The going rate pricing strategy is employed by service providers who want to play it safe in a mature market. They price their services at

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around the same level as their competitors. For example, almost all cyber cafés offer their services in the same price range today, unless they have some additional features like a coffee bar attached.

9. (c) Satisfaction-based pricing

Satisfaction-based pricing method is adopted by service companies to remove the uncertainty in the minds of customers caused by the intangible characteristic of services. Service companies try to remove this uncertainty by adopting the strategies of service guarantees, convenience pricing, benefit driven pricing, and flat rate pricing.

10. (a) Flat-rate pricing

Flat rate pricing can be used in service companies that cannot develop a predictable pricing structure and where the costs are inefficiently managed owing to the labor-intensive nature of the business. Flat rate pricing is adopted by a company if it satisfies the following: the company has a competitive flat rate to attract customers; it has an efficient costing system that provides a cushion for unanticipated costs; and it has extremely good relations with customers so that it gets more opportunities that might have been arisen in a service interaction.

11. (b) Price bundling

The price bundling strategy enables service providers to reduce the costs involved in delivering a second service to another customer. It offers convenience to customers as they need not go through the whole process or visit another service provider for consuming another service.

Unit 14

Promotion and Communication of Services

Structure

- 14.1 Introduction
- 14.2 Objectives
- 14.3 Importance of Communication and its Types
- 14.4 Communication Issues for Service Marketers
- 14.5 Objectives of Promotions
- 14.6 Elements of the Promotion Mix
- 14.7 Promotional Strategies for Services
- 14.8 How to Design a Specific Service Promotion?
- 14.9 Strategies for Effective Promotion
- 14.10 Summary
- 14.11 Glossary
- 14.12 Self-Assessment Test
- 14.13 Suggested Readings/Reference Materials
- 14.14 Answers to Check Your Progress Questions\

“Ninety percent of the success of any product or service is its promotion and marketing.”

-- Mark Victor Hansen

14.1 Introduction

As quoted aptly, for any product or service its promotion and marketing are the key to its success.

In the previous unit, we discussed pricing of services. In this unit, we will discuss promotion and communication of services.

Promotion, like any other element of the marketing mix, is essential for successful marketing of a product/service. It has to be given a little more importance in marketing services due to the intangible characteristic of services. Service providers often find it difficult to tangibilize their services in order to appeal to the target customers. In these situations, promotional techniques help a service provider add tangibility to the intangible services, and thus reduce the perceived risk of customers. Some service providers like financial auditors, tax consultants,

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and doctors do not promote their services aggressively due to the rules laid down by the regulatory authorities. For example, chartered accountants, lawyers, doctors, etc., cannot advertise their services on an individual basis. Therefore, they have to rely on word-of-mouth publicity, handouts, press releases, etc., to promote their services.

We should first understand the role of communication within and outside the organization before learning more about the promotion element. An organization is required to effectively communicate with its internal and external customers so as to maintain transparency in business transactions and also to increase the awareness of an organization's products and services offerings in the market. Further, a service provider should analyze various issues related to business communication.

Service providers should not get so involved in the promotional activity that they ignore the other elements of the marketing mix. It should be looked at as an element of the marketing mix and an important one to tackle competitor strategies immediately. Further, with excessive use of sales promotional techniques by a service company, there is danger that customers might become price sensitive and that they would buy the services only at the time of promotional offers.

This unit discusses the importance of communication and its types and the issues involved in communication for service marketers. Further, it goes into the objectives of promotion and its different elements. The next section provides insights into the differences between promoting packaged goods and promoting services. It touches on alternative promotional techniques. It discusses strategies to design a specific service promotion and the necessary guidelines to come out with an effective promotional campaign.

14.2 Objectives

After studying this unit, you should be able to:

- Explain importance of communication and its types
- Recognize communication issues for service marketers
- Underline the objectives of promotions
- Discuss the elements of the promotion mix
- Evaluate the promotional strategies for services
- State how to design a specific service promotion

14.3 Importance of Communication and its Types

Business communication plays a very important role in any organization as it helps the organization stay in touch with its internal as well as external customers. In fact, an organization's success in communicating effectively with its internal and external customers determines its success in business. There are many

instances where organizations have failed miserably due to bad communication strategies. For example, if an insurance company fails to communicate the benefits of its policy to the customer, why will he/she be interested in insuring with the company? Similarly, when the management of a consultancy decides to change its business model and fails to communicate it to its employees, can we imagine the resultant chaos and confusion. Who are the internal customers and external customers of a company, and why should a company communicate with them? What are the tools that can be used for internal and external communication by an organization? Let us answer these questions by focusing on internal and external communication separately.

14.3.1 Internal Communication

A company's internal customers include its front-line personnel, its employees in different functions and departments and the management. Internal communication helps a company enhance understanding and cooperation among the employees of a department and between employees of different departments. An open communication channel gives them the feeling that they are a part of the team and this helps the organization retain and motivate them in the long run. It also increases transparency between the management and the employees. What type of information should a company communicate to its employees? A company should communicate with:

- Its employees about the importance of internal and external communication and how to communicate effectively;
- Its employees about the organizational vision and corporate objectives;
- Its employees about the ongoing projects and their contribution to organizational objectives;
- Its management about the progress on these projects;
- Its employees on how to solve problems and resolve issues that arise while working on a project;
- Its employees on methods to be adopted by employees to work more efficiently;
- Its employees through various communication methods like meetings, awards, newsletters, formal and informal discussions to motivate them;

An organization can use oral or written communication, face-to-face or online communication or formal or informal communication to communicate with its internal as well as external customers.

14.3.2 External Communication

A company's external customers include: its suppliers, business and individual customers, share-holders, foreign clients (if any), government and various

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regulatory boards, depending on the nature of service business. An effective external communication channel helps a company to communicate with its external customers on a regular basis. The main aim of external communication is to increase the awareness of a company's wide range of services, company performance, and its environmental policies to all the stake-holders. Further, if a company is working in collaboration with another organization, then it needs to communicate regularly with the other organization. These types of collaborations call for clarity in communication between the two companies on various aspects like the fundamental objectives of the company, financial policies, customer service standards, etc.

A company that communicates effectively with its external customers can reap the fruits of improved relationships with its customers, can create a good image of the company in their minds and give them an idea of the professionalism of the employees in the company. An organization can adopt various types of communication to communicate with its internal and external customers.

Example: External Communication @ Apple

The main external stakeholders of Apple are customers, suppliers, competitors, pressure groups, local communities, and the government. Apple works with hundreds of suppliers in many countries, notably in the USA, China, Japan, South Korea, and Taiwan. Apple's website had a lot of information with which it communicated with its stakeholders. Product information for customers, career information for employees and prospective job applicants, corporate information for investors, and many more were available on the website. Apple also used advertising campaigns to communicate with its customers. It had a record of spending \$1.8 billion on advertising in a single year as of 2020.

Source: Joe David, (Mar 2020), "Stakeholders of Apple (Analysis of Apple's stakeholders)", <https://howandwhat.net/stakeholders-apple-analysis-apples-stakeholders/#> (accessed on 27.06.22)

14.4 Communication Issues for Service Marketers

A company's communication strategies help it project a desired image and position itself in the market. Organizations use communication strategies to bring about awareness of their products and services among their target audience. Further, they try to attract customers to consume their services with various techniques. However, sometimes the message is not transmitted properly and is not inferred as intended by the service provider. These situations may arise due to technology, financial constraints, and content or delivery of the message. Let us now discuss how these factors affect the communication process.

Technology: Technology helps an organization to communicate in a fast and efficient manner. At the same time, it can also be a source of problems that crop

up in the course of conducting business. For instance, many domestic and foreign banks offer net banking facilities to their customers. If there is some problem with a bank's website or the network, the customers experience inconvenience and their impression of the bank is affected. Besides, if a potential customer logs on to the website and faces problems, he/she would form a negative impression on the bank and there is a possibility that he/she would opt for other service providers.

Similarly, many companies in the outsourcing business sector offer 24-hour customer care through their call centers. Customers kept waiting or customers whose calls are missed may switch to another service provider.

Example: Communication Issues @ London Heathrow Airport due to Technological Baggage Problem

Technical problems with luggage systems at London's Heathrow Airport resulted in the cancellation of 30 flights, affecting up to 5,000 passengers during June 2022. Majority airlines faced with communication issues as none of the Airlines were able to communicate the baggage problem prior/in advance to their customers as it happened accidentally. But different airlines could just communicate their apologies for disruption passengers have faced. As in the past few weeks, tens of thousands of passengers were hit by airport disruption and flight cancellations in the UK, raising concerns of additional travel woes during the summer. The pictures of the piles of baggage at the Heathrow airport went viral on the internet after some passengers shared them on social media.

Source: Zee Media Bureau, (June 2022), "London Heathrow Airport: Baggage problem persists, 30 flights cancelled", <https://zeenews.india.com/aviation/london-heathrow-airport-baggage-problem-persists-30-flights-cancelled-2476179.html> (accessed on 27.06.22)

Financial constraints: Some organizations may not have enough funds to install a good communication system in their offices. They might not even have enough employees to maintain a channel for smooth communication flow. Because of inadequate facilities, these organizations may fail to provide the best service to their customers. Therefore, they might tend to lose their existing customers and fail to attract new ones.

Content: In some cases, organizations may fail to communicate effectively due to insufficient or distorted content of the message. For example, say a hotel intends to advertise that a holiday package is available for '3 days and 2 nights for a couple' but releases a message that says, '3 days and 2 nights for a family.' Since the number of members in a family is not specified in this communication, it leads to ambiguity.

Delivery: Communication issues in delivery arise due to wrong timing, wrong message, or targeting the wrong audience.

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Some of the issues are discussed hereunder.

- Often, tele-marketing executives of service providers call up customers during business hours to inform them about their organization's service offerings. Customers get disturbed and develop a negative image about the organization.
- Sometimes, service providers communicate incomplete or wrong information to their customers. For example, an insurance agent who does not know complete information about a certain policy might fail to communicate effectively with a potential customer. Further, the potential customer would form a bad opinion about the insurance company.
- In some instances, the organization might end up targeting the wrong audience. For example, a cellular service provider might communicate the benefits of reduced charges on short messaging service (SMS) to the father in a family who rarely uses the service, whereas his young children might be more interested in the service.

Activity 14.1

Assure USA, a leading insurance company in the US, has established its BPO subsidiary in India for managing its inbound and outbound telemarketing activities. However, the company received complaints from customers regarding poor customer service and improper response at the Indian subsidiary. What may be the factors that are responsible for such poor communication process?

Answer:

14.5 Objectives of Promotions

The objectives of business promotions can be varied. They can be used to attract the target consumers and sell the service to them; attract new intermediaries or to encourage the existing ones to improve business or to effectively handle competition in the market.

Promotional campaigns are targeted at consumers to increase their awareness of a new service offering and encourage them to try it out.

For example, they can be even used to primarily attract new customers and introduce the service to them. Promotions are also used to push the current customers to use the services more frequently.

Promotional campaigns can also be targeted at intermediaries to encourage them to offer new services or make the existing intermediaries give an extra push for the services. Promotions targeted at intermediaries can also be used to protect the trade from temporary situations of increase in prices that could result in sales reduction. For example, most insurance companies use promotional strategies to encourage their intermediaries, that is, the brokers and the agents, to do better business.

The promotional objectives targeted at competition help a service provider to develop offensive or defensive strategies targeted at one or more competitors in the market.

Example: Objectives of Promotions @ Coca-Cola

Coca-Cola advertisement campaigns were launched to achieve specific objectives. The company's main objective was profit maximization and these advertisement campaigns contributed to the achievement of this objective in several ways by creating awareness of the company and its products. The purpose of the Coca-Cola company was to refresh the world and make a difference.

Source: Advertising Row, (Jan 2022), "What is the purpose of Coca-Cola advertisement?", <https://advertisingrow.com/advertising-magazine/what-is-the-purpose-of-coca-cola-advertisement/#> (accessed on 27.06.22)

14.6 Elements of Promotion Mix

A company's promotion campaign can consist of various communication programs developed by it. The main aim of these programs is to inform the customer about the benefits provided by a service provider through his/her services and also through the campaign. Further, these programs remind the customer of the service offering and persuade them to purchase the offerings of the company.

An organization should develop a promotional mix after careful analysis of the present and potential constraints, strength of the competition and their likely reaction, and the number of geographical areas to be covered by a communication program. Personal selling, advertising, sales promotion, publicity & public relations, and direct marketing are the elements of promotion mix.

14.6.1 Personal Selling

Personal selling involves persuading an existing or a potential customer through oral communication, to purchase the service offering of the company. It aims to develop a rapport with the customer and because of that, it enjoys a high success rate. Different modes of personal selling include face-to-face conversations, tele-marketing, or chatting on the internet. However, personal contact through face-to-face meetings are more successful in increasing business and building a

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rapport with the customer, when compared to the other ways. Personal selling is an expensive affair as the sales personnel need to be trained well to offer good customer service. If they do not behave cordially with customers, it will cost the company heavily by degrading its image among customers. The costs are also high because the efforts of a service executive are all concentrated on one single customer at a time and if he/she rejects the business proposal, it would be a big wastage of time and resources for the executive. However, this loss is compensated by the usually high rate of success in personal selling. We shall now discuss the opportunities and advantages of personal contact, customer relations, and cross selling, involved in personal selling.

Apart from retaining the existing customers, personal contact also enables a service provider to attract the attention of the prospective customers, create interest in their minds, increase their desire to purchase and persuade them to act and make a purchase. The four actions namely Attention, Interest, Desire, and Action involved in these situations constitute the AIDA model of communication. Personal meeting of service personnel with customers helps service providers understand their specific needs and offer service accordingly. This interaction also results in immediate customer feedback which helps in improvisation and customization of the service offering. For example, a customer's perception of an investment option is better understood when an agent talks to him personally rather than sending him the details through mail. Further, an agent will be able to assess the interest level of the customer and his/her probability of purchasing the options. In some cases, the customers are unaware of their needs, or might have some apprehensions about the service offering. Sales personnel can be of immense help in situations as they can assist customers in identifying their needs, or in removing their apprehensions about the service offering.

Personal selling creates an opportunity for the service provider to develop a relationship with the customer. The present-day customer is educated, can differentiate between various services, values the quality of services, and is adventurous enough to try out new service offers. Companies which fail to observe these changes in customers' attitudes are bound to lose many valuable business opportunities. It is based on this assessment that service providers are offering innovative services like adventurous sports, bungee jumping, holiday at exotic locations, mutual funds, etc. On the other hand, the relationship enhancement largely depends on the skill and attitude of the sales personnel. The sales personnel should be customer-oriented by placing customer requirements and desires before anything else, should be competent with good knowledge and expertise in the area of business, should be dependable, honest, and should be able to attract customers. For example, when a service executive approaches a customer with a proposal of selling a holiday resort membership, he/she should be equipped to answer all customer queries on the subject. Suppose, the executive

represents Holiday Inn Resorts and the customer questions him/her on a competitor's offering like that of Mahindra Holiday Resorts, the executive cannot say that he/she knows nothing about it. So, it is important for the service personnel to have a knowledge of competitor's offerings too.

The third advantage is that of cross-selling, wherein sales personnel can sell a range of services to the existing customers, based on their earlier relationship. For example, it is easy for a coach at a health club to persuade customers attending yoga classes to opt for nutrition / diet advisory services too.

14.6.2 Advertising

Advertising plays a major role in promoting a company's products and services on a large-scale. However, developing advertising campaigns for services is a difficult aspect because of the intangible property of services.

Service providers should involve front-line employees in designing the advertising campaign as service personnel directly interact with customers during the process of selling and they would understand what appeals to them. A company's image is damaged if its service personnel are inefficient, behave rudely, or are careless in dealing with customers. The word-of-mouth publicity is a powerful advertising tool for a company and its services. Service providers should hence reiterate the importance of customer service to their employees and motivate them to perform better. For example, the Taj Group of Hotels in India has a scheme where their personnel are rated by visitors at the hotel for their customer service. Such schemes encourage service personnel to perform well.

The second aspect to be considered is the variability in services i.e., the way services are delivered differs from one service provider to another. Service providers attempt to standardize service delivery. In spite of their attempts to do so, variation in service quality arises due to certain uncontrollable factors like attitudes, expertise, and skill level of employees who are involved in service delivery. Discerning customers are quick to note the difference and they immediately even share these discrepancies with other customers. It is important to leverage on this word-of-mouth publicity by making it favourable for the company. When customers are satisfied and create a favourable buzz, new customers are attracted. Services companies can publish newsletters with favourable comments of satisfied customers and circulate them among potential customers.

Service customers face high perceived risk due to the intangibility of services. Therefore, service providers should design advertising campaigns that attach tangible clues to the intangible services. For example, an airline might advertise its friendly and pleasant employees interacting with customers, and the rewards it received for safe and punctual travel. This will assure the potential travellers in terms of safety and customer service.

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Service companies must ensure that while advertising services they only make those promises that they can possibly deliver. Making unrealistic promises that cannot be delivered amounts to cheating customers. Customers who get carried away by the promises would be disappointed and frustrated when the company fails to deliver its tall promises. Also, the company would be perceived as unethical by the public when the news of failure of keeping promises spreads among the public. Thus, it is important for a company to advertise its services through various media for better recognition, but at the same time ensure that the communication builds brand identity in the long run.

Advertising and communicating the service benefits on a continuous basis helps improve its brand image and brand equity through service differentiation. Advertising expenditure needs to be allocated optimally in such a way that benefits are greater than costs incurred. When a business is passing through a rough phase, one of the first cost-cutting measures is taken on the advertising front. Most companies try to cut down their promotional and advertising costs due to budgetary constraints. However, they should use their discretion in this situation as most companies might need the support of advertising for improving their business. Another alleged issue with advertising is that it targets the wrong target customers and takes advantage of their emotions to increase the company sales. One example of such allegedly unethical advertising can be the advertisements of slimming tablets targeted at young college going girls. These teenagers can ruin their health in the madness of slimming down, without proper medical guidance.

Example: Advertising @ Coca-Cola

Consider the average amount spent by Coca-Cola, towards advertising and promotions. In the last six years from 2014 to 2020, it spent around US \$4 billion per year for its worldwide advertising. Coca-Cola, in order to obtain competitive advantage, was using more resources with respect to promotions. PepsiCo also spent almost the same advertising budget like Coca-Cola. But Coca-Cola was the market leader with 43.7% market share in US market and Pepsi being at second position with 24.1% market share by September, 2020.

Source: M. Ridder, (Mar 2022), "Coca-Cola Company's advertising expense from 2014 to 2021", <https://www.statista.com/statistics/286526/coca-cola-advertising-spending-worldwide/> (accessed on 27.06.22)

14.6.3 Sales Promotion

Sales promotion is often used by companies to improve the sales of a product or service either by encouraging the existing customers to use the services more frequently or by attracting new customers to use their services. Companies adopt different sales promotion strategies for end consumers, intermediaries, and sales force. Companies aim to pull customers to regularly use their services by

attracting them with free offers, coupons, cash discounts, warranties, prizes, contests, etc. For example, some banks like Andhra Bank promote their credit cards to potential customers by offering free user charges for the first one year of issue. Further, they push the intermediaries to improve the sales by offering them discounts, providing them allowances to advertise, announcing awards, etc. Companies also adopt a different set of methods to encourage sales personnel to sell more. This can be done by adopting performance-based compensation methods and giving them bonuses, prizes and awards for exceptional performance. For example, a credit card company normally awards commissions to its sales personnel based on their performance.

Sales promotion strategies are used by companies to stimulate potential customers to try their services or to attract competitors' customers to shift loyalties. For example, Club Mahindra offers free holiday packages to potential customers and thus tries to encourage them to buy club membership. Most credit card companies like HDFC Bank offer free transfer of balance and low interest charges if the customers transfer their credit balance from other credit cards. Though sales promotions tend to increase sales for a period, there is a problem that this increase in sales stops or in fact, comes down as soon as the promotion scheme is withdrawn. Therefore, companies should not ignore the other elements of promotion mix and concentrate on sales promotion strategies alone.

14.6.4 Publicity and Public Relations (PR)

Companies use publicity campaigns to bring in awareness about their offers among the existing and potential customers and even the general public. Publicity involves using of information that induces interest towards a company, event, or person. Publicity is also a mode of mass communication similar to advertising. Examples of publicity includes event sponsorships, charitable donations, etc.

On the other hand, public relations is meant to maintain good relations with a company's employees, customers, stockholders, government, regulatory authorities, and the general public at large. It is aimed to enhance a company's image and prestige among its internal and external customers. A company's PR activities might include press releases, news and articles on the company, statements of senior management, conducting press conferences, oral and written audio and video messages directed at the target audience, public services official web sites, and corporate identity materials like brochures, logos and stationery.

14.6.5 Direct Marketing

Direct marketing involves contacting the existing and potential customers directly through telemarketing, direct mail, and online marketing (e-mail and official web sites), without employing any intermediaries in the process. The positive aspects of direct marketing include direct interaction with customers, immediate feedback from them, and facility to customize for groups of customers or individuals.

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These features might not be there when a company employs the services of intermediaries. For example, say the customer of an insurance company needs some specific information or a customized change in the service offering of the company. While the intermediary might not be in a position to respond to customer's satisfaction, a direct employee of the company would be better equipped to do that. Marketers can also have a direct feel of the customers' pulse, which helps them in understanding their requirements and preferences better. Direct marketing helps companies to give a personal touch to their marketing activities. Further, it is less expensive on a cost-per-order basis and proved to be quite efficient especially in some specific business situations.

Check Your Progress - 1

1. Which of the following is not a factor affecting the communication process in services?
 - a. Medium
 - b. Budgetary constraints
 - c. Content
 - d. Delivery
 - e. Message
2. Which of the following does not contribute to communicational issues in delivery?
 - a. Wrong timing
 - b. Wrong message
 - c. Wrong audience
 - d. Wrong technology
 - e. Wrong source
3. Which of the following are not the external customers of a service organization?
 - a. Suppliers
 - b. Shareholders
 - c. Regulatory boards
 - d. Government
 - e. Front-line employees
4. Which of the following constitutes the main aim of external communication for a company?
 - a. Communicate with its employees about the organizational vision and corporate objectives
 - b. Increase awareness about its wide range of services, company performance, and its environmental policies to all the stake-holders

- c. Communicate with its employees on how to solve problems and resolve issues that arise while working on a project
 - d. Meetings with Board of Directors to appraise them of the future company plans.
 - e. Appraise new recruits of the company culture, policies, rules and regulations of the company
5. Which of the following involves contacting existing and potential customers directly through telemarketing, direct mail, and online marketing (e-mail and official websites), without employing any intermediaries in the process?
- a. Advertising
 - b. Direct marketing
 - c. Public relations
 - d. Personal selling
 - e. Sales promotion

14.7 Promotional Strategies for Services

The fundamental characteristics of services differ from those of packaged goods. Services are characterized by intangibility, variability, and perishability. The differences between the promotional strategies of packaged goods and services arise due to these special characteristics. Let us now discuss the differences between services and packaged goods in the context of promotion:

Services cannot be inventoried: Services are perishable in nature and they cannot be stored for future use when the demand would be high. Therefore, matching demand with capacity becomes a challenge for service marketers. One way to match demand and capacity is to decrease the usage during peak demand periods and increase it during off-periods. This can be done through price discrimination. However, this strategy will be successful only if service providers are able to communicate the price changes to the target audience on a regular basis.

On the other hand, promotion of packaged goods has little necessity to match supply and demand as the capacity can be altered to suit the demand at the manufacturing stage itself. Further, temporary promotions by marketers of goods encourage customers to purchase in bulk and store them, enabling marketers to reduce their holding costs of inventories. Though it is impossible to store services for future use, service marketers can attract customers to use their services more frequently by offering them memberships in the form of advance purchases or loyalty schemes. While advance purchases offer convenience to customers, loyalty schemes offer price discounts. For example, many airlines offer frequent flier schemes that allow a price discount on the subsequent travel, once a customer collects a certain number of points.

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Reduced role of intermediaries: Promotion planning for packaged goods requires distribution of available resources among advertising, trade promotion and consumer promotion, whereas, services that are sold directly in the market do not require any trade promotion. That is, as the role of intermediaries is limited or even non-existent, there is no need to promote them. Intermediaries come into the picture only in a few service industries like travel and insurance. These companies hire agents and brokers and reward them aptly to successfully compete with the other players in the industry. Therefore, companies have special promotional policies for intermediaries as well, as discussed earlier.

Role of service personnel: Service personnel play a key role in customer interaction and in the service delivery process. A customer's perception of the image of the company and his/her satisfaction with the service depend to a large extent on his/her interaction with the service personnel. In contrast, there is relatively less responsibility for sales personnel in packaged goods industry as the actual product also has a role to play in customer satisfaction. Service companies can differentiate their services and gain a competitive advantage through their customer service. Therefore, service providers like airlines and hotels advertise the quality of their service and the commitment of their personnel.

Example: Role of Service Personnel for Success of Pizza Hut

Pizza Hut was one of the popular fast food chains worldwide. The ACSI (American Customer Satisfaction Index) scores for limited service restaurant chains in the USA from the years 2000 to 2021 revealed that Pizza Hut was not rated very high with respect to customer satisfaction as compared to its competitors. For the year 2021, the ACSI score for all limited service restaurants was 78. Pizza Hut obtained a satisfaction score of 78 (2021). The study also revealed that the customers of Pizza Hut were very happy with the offerings like role of service personnel & their hospitality, very delicious food prepared by chefs, usage of fresh ingredients and etc.

Source: ACSI, (2022), "American Customer Satisfaction Index 2021 for limited service restaurants",

https://www.theacsi.org/index.php?option=com_content&view=article&id=147&catid=&Itemid=212&i=Limited-Service+Restaurants (accessed on 27.06.22).

Service delivery location: Service delivery location also adds to the credibility of the service provider and his/her service. For example, a spacious, well-lit and well-ventilated cybercafé in a complex would attract more customers than a narrow and dingy café in a by-lane. Customers rate the service provider depending on the ambience of the place too. Further, the physical evidence at the service provider's location tangibilizes the service and thus reduces the perceived risk of the customer. Therefore, most service providers advertise their service locations. They even resort to PR initiatives when any changes are made to their locations or new ones are added.

Customer as a co-producer: Unlike packaged goods where customer is not involved in the production process, some service industries require customer participation and involvement in the production process. For example, selecting investment options, ordering menu in the restaurant, etc. require customer's participation. Therefore, service providers stress on the role of the customer in their promotion campaigns. At Masala Art, promoted by the Taj Hotel in Delhi, the chef cooks the food in front of the customer, in the manner he/she desires. This maximizes the scope for the customer in designing the service the way he/she wants.

In view of the above differences between service industry and packaged goods industry, service providers can adopt any of the following promotional techniques:

Sampling: It is a technique for promoting products and services by offering them as a sample free of cost. It is more widely used in packaged goods than services. However, some service industries like credit card companies, tourism packages etc., offer free services during their promotional period. For example, Mahindra Holiday Resorts sponsors a free trip for a select few prospective customers to exotic locations like Munnar (Kerala) and Shimla. Once the customers feel satisfied with the promotional offer, they might opt for a life membership at the resorts.

Premiums: Premiums provide tangibility to services. This is used more regularly in insurance sectors where differentiation of services is not possible otherwise. An insurance company might fix the premiums depending on the initial deposits or the amount of policy insured by the customers.

Prize promotions: Prize promotions gain attention and increase the enthusiasm and interest of customers on the service. Further, through prize promotion, service marketers can increase the level of involvement of customers in service consumption.

Price/Quantity promotions: Price/Quantity promotions either offer reduction of price or greater quantity or longer service duration for the same price. For instance, reduced price offer is made by many service companies at the time of launch to the first 50 or 100 customers who subscribe to the service.

Refunds and future discounts: Refunds or future discounts provide incentive to customers to continue to purchase the company's services and enhance brand loyalty. For example, 'Frequent Flier Programs' of airline companies offer discounts based on mileage points accumulated by customers.

Coupons: A coupon is a document or ticket that could be redeemed by a customer on a future date while purchasing the service. At the time of purchase, the customer gets concessional price. Service marketers often use coupons to enhance the effectiveness of a promotional campaign.

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Activity 14.2

Charms Spa, a Spa chain having branches all over India is setting up its new branch at Hyderabad. As the spa concept is new to many Indian customers, it is planning to run a sales promotion campaign to attract customers and create awareness about its service offerings. What are the various sales promotion schemes that Charms Spa can adopt?

Answer:

Integrated Service Marketing Communication

A decade ago, marketers did not have as many options to promote and communicate their product or service as today. In the past few years, various new ways of reaching the target customers are at the disposal of marketers, new website and social media mobile applications like Facebook and Instagram have become lucrative options for marketers to disseminate their marketing messages to a tightly knit customized segment of prospective customers. A simple distinction like print or electronic media could require enormous marketing know how to arrive at the right medium for promoting a particular product or service in the ever changing media landscape. Then the marketer has to put a lot of effort to be consistent with the message that the company is trying to communicate across all medium. The transition from mass marketing to targeted marketing, with the use of newer communication channels, creates unique challenges for marketers. Due to the characteristics of services, this job of identifying the appropriate medium for promotion and integration is even more challenging for service marketers. Integrating marketing communications is essential for the success of a service business. Integrated Marketing Communications (IMC) tries to ensure that companies deliver a clear and consistent message across its many communication channels. A service business should not only look at communication in a narrow sense of just advertising and selection of media or public relations, service firms may also communicate value to its customers through its location, atmosphere, behavior of the employees etc.

The following examples illustrate situations where customers may be dissatisfied and the service may lose out to competition due to simple lack of integrated marketing communication.

First, imagine reading a local newspaper ad that says there is a certain price discount available on a few menu items of a popular fast food restaurant chain. A consumer may read this and arrive at the restaurant later that evening, upon arrival he or she makes an enquiry about the offer to the manager or staff of the restaurant

and to the surprise of the customer, the restaurant denies any awareness of any such advertisement published in the newspaper.

Second, upon disruption in internet connectivity a customer decides to raise a complaint through a mobile application provided by the broadband company. After registering the complaint, the customer gets a notification that the issue would be resolved in a few hours. When the issue was not resolved, the customer decided to contact the customer support and talk to a customer care representative, after discussion the representative lets the customer know that it may take a few more hours to resolve the issue.

Such scenarios are common in service firms and service marketers must be very careful about the customer expectations they create. The situations describe how mismatch of information across various customer touch-points may create trouble for a company. In the above mentioned situations, managers should think about the mistakes that the firm made, how can the errors in communication be minimized and eventually erased.

Why should Service Firms Focus on IMC?

- Service firms may coordinate the marketing message across several media and avoid duplication of the message. Firms also gain advantage from the synergy developed due to coordination of the message across various channels. This may eventually help the firm to develop more effective messages. At the basic level, a unified consistent message has more impact on the consumers as compared to a fragmented inconsistent communication.
- Factors like the growth of the internet, database marketing, changes in the nature of organizational communication have all triggered the need for firms to integrate their communications carefully. Today the customer comes in contact with a firm like a hotel or hospital through multiple channels ranging from websites, to social media or third party review websites.
- A single consistent message across different channels helps a firm to save cost by reducing overuse or redundant usage of resources. As a result, the marketing budget does more for the firm in achieving the marketing objectives. In other words, IMC makes the marketing budget more productive.
- As a firm is able to communicate a consistent message, the internal and external communication across departments and with associate partners outside the organization tend to become more clear and smooth, everyone works towards a crystal clear organizational goal. This improves usage of resources like time, people and money of the organization and could be beneficial financially for the firm in the long run.
- Integrating marketing communications also helps in enhancing brand recognition and improves customer perception of trust towards the firm.

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Integrating Marketing Communication Challenges

- **Challenging for marketers:** There is constant communication with the consumer and across several media and it is the job of several professionals in the firm to maintain the consistency in the medium, keeping in mind the marketing objectives and ensuring the return on investment, such multiple tasks may create a lot of pressure on marketers which may trigger a few mistakes.
- **Organizational conflicts:** Implementing and executing integrated marketing communication in a large organization with many hierarchical levels can be very challenging. Mismatches between ideologies of managers at different levels can create trouble for the firm which wants to send a consistent message to its audience.
- **External partner integration:** A service firm works with many partners when designing communications aimed at target customers. These partners can be advertising agencies, media houses, etc., keeping everyone on the same page to maintain a consistent image and communication is not an easy task for any management.
- **Communicating with a wide range of target customers:** A service firm like a hotel may have a variety of target audience who are frequent customers. A hotel may have business travellers, leisure travellers and the hotel may be having a lot of guests through travel agents, in such a scenario it is difficult for organizations even to devise a common message for the variety of guests. The difficulty amplifies if this has to be done at a global level, where the hotel has several branches in different countries.
- **Objectives of promotion:** Long term advertisements designed to create an image in the minds of the consumer may be conflicting with messages intended to generate short term organizational objectives like sales or profit maximization. It is difficult but both the above mentioned objectives can be effectively communicated with the help of a carefully planned, designed and integrated marketing program.

14.8 How to Design a Service Promotion?

Designing a service promotion is not an easy task as it involves adding up tangible clues to the service and attracting the customers. Also, the company has to take care to avoid all the pitfalls possible in terms of excess costs or dwindling sales in the post promotion period. A service provider should first identify the services to be promoted, choose the target audience for the promotions, estimate the value to be added to the service brand, decide the timing and duration of the promotional campaign, the techniques to be used, and finally, determine how the promotion is different from those of competitors. Let us now discuss these aspects in detail.

14.8.1 Which services to promote?

The answer to this question depends heavily on the service provider's situation in the market. If the service provider is under heavy pressure from competition and his aim is to survive in the market, he/she may opt to promote his/her services accordingly. If the service provider wishes to attract new customers, then he/she may do well to promote low-risk and relatively low-priced services that may appeal to majority of potential customers. Having attracted new customers to the service, a service marketer can promote other services apart from the original low-priced service that was promoted (cross-selling). On the contrary, if the service provider's aim is to prevent customers from moving to competition, then he/she can offer concessions or additional benefits to customers who opt for extension of contract or renewal of subscription. For example, financial service providers can prolong the contract period of the customers to keep the competitors at a distance.

14.8.2 Who would be the target customer?

Service companies have the option of planning their promotional campaigns to a particular market segment or to the whole market. For example, Disney World can promote its services to children below 12 years of age. Products are standardized and hence, target promotional campaigns for a particular demographic segment may not be suited for packaged goods industry. Services on the other hand are flexible in this regard and service providers have numerous opportunities for price differentiation. For example, a packaged goods company cannot charge different prices for children and other customers on a bottle of health drink. However, a services company can charge different prices for adults and children while traveling.

14.8.3 What would be the value added to the product/brand?

Service providers should be careful when assessing the value to be offered to the customer. Factors like promotional objectives, costs of promotion, and customer perceptions of value should be considered while developing value promotions. These can be of two types. In the first type of offering, the same service or an upgradation can be offered for a lower price through price/quantity promotions. In the other type, the customer is offered more for the same price through premiums and sweepstakes.

14.8.4 Is the timing right for promotion and how long should a promotional campaign be run?

Service providers often face the question of when the promotional campaign should be launched, for how long it should be run, and how frequently should it be offered. Service marketers could plan the timing of the promotional campaign after considering factors like demand fluctuations in the service demand. For example, airlines can run promotional offers when the market demand increases

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for air travel or when the competition is strong in the market. The time duration of the promotional campaign needs to be based on a host of factors like the target customers' purchasing power and the value of the service offering. The promotion campaign should be extended to ensure that maximum customers are covered by the campaign. The existing level of competition in the market and purchase cycle of the target customer are factors that would determine the frequency of promotions.

Example: Wrong Timing by Harley Davidson Promotion in India

Consider Harley Davidson bikes, which were in the Indian market since a decade, left the market in 2020. The company created many innovative advertising campaigns in the Indian market to attract the customers. During 2020, it created a community called Harley Owners Group (H.O.G.) and made an advertisement campaign “#FreedomStoriesIndia”. In the ad campaign, the bike owners narrated their lifestyle with Harley. But in spite of such innovative advertising, the company could not get good business and left the Indian market in the same year 2020. The timing of Harley Davidson ad depicted above was wrong.

Source: exchange4media, (2020), “Harley Davidson transforms bikers into brand ambassadors in new campaign”, <https://www.exchange4media.com/advertising-news/harley-davidson-transforms-bikers-into-brand-ambassadors-in-new-campaign-103038.html> (accessed on 28.06.22)

14.8.5 Who is benefited from the promotions?

Service providers should carefully identify the group of customers whose purchase behavior needs to be influenced by the promotional campaign. After identifying the target customers, companies should verify if the end consumer is benefited directly. For example, many business travellers are not personally benefited through the frequent flier programs because the discounts and premiums offered by airlines are redeemed by the company that employs them.

14.8.6 How to differentiate a promotional campaign?

Often, service providers find it difficult to differentiate their promotional campaigns from those of their competitors. A service provider who has designed an innovative promotional campaign soon finds his/her competitor in the market imitating it. To avoid this, a service provider should design a promotional campaign that cannot be easily imitated by competitors. When service companies develop joint promotions along with other business partners, imitation becomes difficult.

14.9 Strategies for Effective Promotion

Some service companies fail to design promotional campaigns without waste of time and money. Even if a promotional campaign proves to be effective, its positive effects may be nullified by the value of resources wasted in the process.

The following guidelines can be helpful in implementing an effective promotion with minimum or no wastage of time and resources:

Effective planning: Service organizations should develop a promotion calendar to answer the questions discussed in the earlier section. Further, to monitor the promotional process on a continuous basis, an exclusive promotion department in the marketing division could be created. Such an independent department would ensure that there is innovation in the promotion program. Also, the promotion department would ensure that there is consistency in the communication themes of the various campaigns.

Focused objectives: Service providers should set one or two objectives, as it would help them do a better job. The choice of objectives should be according to their promotional expenditures rather than expecting too much from a single campaign and hoping to achieve too many objectives with one promotion.

Perfect timing: Service providers should decide on the timing of the promotional campaign, its duration and the frequency of such campaigns. Service providers should not extend the campaign to the extent that consumers tend to think it is a permanent offer. These situations can cost the service provider heavily.

Adding value through tie-ups and promotion overlays: Often, service providers offer promotions in packages either by including other services of their own company or by tying up with other service companies. Further, promotional offers that include packaged goods are quite attractive. On the other hand, service companies can use two or three promotional techniques at one time.

Example: Tie-ups & Promotion Overlays of McDonald's & Coca-Cola

McDonald's & Coca-Cola have a strategic partnership for more than six decades. McDonald's and Coca-Cola alliance was a big success, making the two companies what they are today. McDonald's was now the world's leading global food service retailer with more than 37000 local restaurants as of 2022. McDonald's and Coca-Cola have tie-ups and promotion overlays at every McDonald's outlet in the world. McDonald's Malaysia was offering McDelivery Free Coca-Cola Cups Promotion. In this promotion, customers get free 1 Coca-Cola cup with purchase of meals with Coke above RM60 in a single receipt.

Source: everydayonsales, (2021), "McDonald's McDelivery Free Coca-Cola Cups Promotion", <https://www.everydayonsales.com/434694/1-31-jan-2021-mcdonalds-mcdelivery-free-coca-cola-cups-promotion/> (accessed on 28.06.22).

Employee motivation: A successful promotional campaign requires the efforts of the entire sales force and the marketing team. Therefore, service companies should motivate their employees, consumers, sales intermediaries, etc. by using both push and pull strategies effectively.

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Well-differentiated campaign: Service companies should ensure that their promotional campaigns are intelligible, understood in the correct perspective and well-differentiated from those of their competitors.

Regular evaluation of the campaign: Service companies need to monitor the increase in sales generated as a result of the various promotional campaigns launched by the company. This helps them assess the effectiveness of the campaign. Further, periodical evaluation helps marketers to understand what corrective measures could be undertaken for improvement.

Check Your Progress – 2

6. Which of the following elements of the promotion mix involves using of information that induces interest towards a company, an event, or a person?
 - a. Publicity
 - b. Advertising
 - c. Personal selling
 - d. Public relations
 - e. Sales promotion
7. Identify the statements that do not hold true with regard to advertising in services.
 - a. Advertising campaigns are easy for services while compared to that for products
 - b. Service providers should involve front-line employees in designing the advertising campaign as they directly interact with the customers
 - c. Service providers should design advertising campaigns that attach tangible clues to the intangible services
 - d. Advertising helps the company in differentiating and positioning its services from those of its competitors
 - e. Service organizations can effectively reach out to their B2B clients by advertising in industrial magazines and trade directories
8. Service providers should involve which of the following stake-holders while designing the advertising campaign as service personnel directly interact with customers.
 - a. Suppliers
 - b. Shareholders
 - c. Clients
 - d. Consumers
 - e. Front-line employees

9. Which of the following is not true regarding the promotional strategies for services?
 - a. Intermediaries play a key role in the promotion of services
 - b. Service personnel play a larger role in promoting services
 - c. Physical evidence tangibilizes the services
 - d. Services cannot be inventoried
 - e. Customer's level of involvement in service consumption determines the satisfaction level
10. Which of the following may be offered for a direct reduction in price, free service for one or more persons with the original customer, or a discount on the original service offer?
 - a. Premiums
 - b. Prize promotions
 - c. Coupons
 - d. Quantity promotions
 - e. Discount offers
11. Country Club sponsors a free trip for a select few prospective customers to exotic locations like Darjeeling and Kerala. Once the customers are satisfied with the promotional offer, they might opt for a life membership at the resorts. What is the term used to refer to this type of promotional technique?
 - a. Premiums
 - b. Sampling
 - c. Coupons
 - d. Prize promotions
 - e. Discount offers

14.10 Summary

- Service organizations can retain existing customers, attract new customers, increase brand awareness, build business, reduce their perceived risk and finally, gain the trust of their customers through promotional campaigns.
- Service companies should first understand the importance of communication in an organization with its internal and external customers. It should also learn the various tools used for internal and external communication and employ them effectively. Further, an organization should have an idea about the issues likely to arise in its communication with internal or external customers. These issues might be due to technology, budgetary constraints, content, and delivery.

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- An organization should understand and clearly formulate the objectives for promotion. These objectives may be targeted at customers, intermediaries, employees, or competitors.
- After deciding on the objectives for promotion, an organization should understand the elements of the promotion mix and use them in the right proportion.
- The complete communication program of an organization constitutes the promotional mix. These are personal selling, advertising, sales promotion, publicity, public relations, and direct marketing.
- A service company should also have knowledge about the basic differences between packaged goods and service industries to design effective promotional techniques. The service personnel play a more important role in service delivery when compared to packaged goods. The delivery location is also important in services and finally, a service customer acts as a co-producer unlike in the packaged goods industry. Keeping these differences in mind, a service company can opt for any of the promotional techniques like sampling, premiums, prize promotions, price/quantity promotions, refunds and future discounts, and coupons.
- While designing a specific promotion campaign, a service organization should be able to answer questions like which services are to be promoted, who the target customers are, what value is being added to the service, when the campaign should be launched, how far it should be extended, who the beneficiaries of the campaign are, and finally, how a service firm can differentiate its promotion from those of competitors. Answering these questions will help the service organization design a service promotional campaign.
- Some promotional campaigns, however, still fail as they consume a lot of time and resources and might prove ineffective. Therefore, guidelines need to be provided for effective promotional campaign.
- An organization requires to plan effectively, should have focused objectives, the campaign launch should be perfectly timed, and it should add value by tie-ups and promotional overlays.
- An organization should also motivate its customers, intermediaries, and employees involved in the sales and marketing departments of the organization through its promotional campaigns.
- Finally, an organization should develop a well-differentiated campaign from its competitors and regularly assess the success of the campaign.

14.11 Glossary

Direct Marketing: It involves contacting existing and potential customers directly through tele-marketing, direct mail, and online marketing (e-mail and official websites), without employing any intermediaries in the process.

External Customers: These include: its suppliers, business and individual customers, share-holders, foreign clients (if any), government and various regulatory boards, depending on the nature of service business.

Internal Customers: Employees are the internal customers of an organization and constitute its internal market.

Personal Selling: It involves persuading an existing or a potential customer through oral communication to purchase the service offering of the company.

Public Relations: Public relations is meant to maintain good relations with a company's employees, customers, stock-holders, government, regulatory authorities, and the general public at large. It is aimed at enhancing a company's image and prestige among its internal and external customers.

Publicity: Publicity involves using of information that induces interest toward a company, event, or person. It is also a mode of mass communication similar to advertising.

14.12 Self-Assessment Test

1. Service companies should first understand the importance of communication in an organization. Explain the significance of communication in a service organization. What are the various types of communication? What kind of communication issues do service marketers usually face?
2. An organization should understand and clearly formulate the objectives for promotion. What are the objectives of promotions?
3. After deciding on the objectives for promotion, an organization should understand the elements of the promotion mix and use them in the right proportion. What are the various elements of the promotion mix?
4. The promotional strategies of goods are different from that of services. Discuss the promotional strategies for services in detail. In what way can an organization design a specific service promotion?
5. Some service companies fail to design promotional campaigns without waste of time and money. Explain the strategies through which an effective promotion can be implemented.

14.13 Suggested Readings/Reference Materials

1. Jochen Wirtz, Christopher H. Lovelock (2021). 'Services Marketing: People, Technology, Strategy' (Ninth Edition), World Scientific Publishing Co Inc. (USA).

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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.

14.14 Answers to Check Your Progress Questions

1. (a) Medium

Organizations use communication strategies to bring about awareness of their products and services among their target audience. The factors that affect the communication process in services include: technology, budgetary constraints, content, and delivery.

2. (d) Wrong technology

The factors that affect the communication process in services include: technology, budgetary constraints, content, and delivery. Communication issues in delivery arise due to wrong timing, wrong message, or targeting the wrong audience.

3. (e) Front-line employees

A company's internal customers include: its front-line personnel, its employees in different functions and departments, and the management. A company's external customers include: its suppliers, business and individual customers, shareholders, foreign clients (if any), government, and various regulatory boards, depending on the nature of service business.

4. (b) Increase awareness about its wide range of services, company performance, and its environmental policies to all the stake-holders

The main aim of external communication is for a company to increase awareness about its wide range of services, company performance, and its environmental policies to all the stakeholders. Options (a) and (c) are the aims of internal communication.

5. (b) Direct marketing

Direct marketing involves contacting existing and potential customers directly through tele-marketing, direct mail, and online marketing (e-mail and official web sites), without employing any intermediaries in the

process. Direct marketing helps in direct interaction with customers, getting immediate feedback from them, and offers the facility to customize for groups of customers or individuals.

6. (a) Publicity

Publicity involves using of information that induces interest toward a company, an event, or a person. Publicity is also a mode of mass communication similar to advertising. Examples of publicity include event sponsorships, charitable donations, etc.

7. (a) Advertising campaigns are easy for services while compared to that of products

All the statements are true regarding advertising in services, except statement (a). Developing advertising campaigns for services is difficult because of the intangible property of services.

8. (e) Front-line employees

Service providers should involve front-line employees in designing the advertising campaign as service personnel directly interact with customers during the process of selling. They would understand what appeals to them. A company's image is damaged if its service personnel are inefficient, behave rudely, or are careless in dealing with customers.

9. (b) Intermediaries play a key role in the promotion of services

Where promotion of services is concerned, it differs in several ways from the promotion of packaged goods. Services cannot be inventoried. There is a reduced role of intermediaries; role of service personnel; service delivery location; and customers' involvement in the production process.

10. (c) Coupons

Coupons may be offered for a direct reduction in price, free service for one or more persons with the original customer, or a discount on the original service offer. For example, some restaurants offer a free dinner to kids accompanying adults during a promotional campaign.

11. (b) Sampling

In the given example, Country Club is using the sampling technique for promoting products and services. It is offering its customers a sample free of cost so that once they are satisfied, there is the possibility of their opting for a life membership at the resorts.

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