Block

5

MAXIMIZING SERVICE POTENTIAL AND CHALLENGES FOR SENIOR MANAGEMENT

BLOCK 5: MAXIMIZING SERVICE POTENTIAL AND CHALLENGES FOR SENIOR MANAGEMENT

The fifth block of the course on Services Marketing deals with managing customer relationship, which is necessary to optimize a firm's interaction and engagement with customers to maximize customer satisfaction, sales and customer profitability. The block contains five units. The first unit discusses the concept of internal marketing. The second focuses on Service failure and service recoveries. The third unit discusses customer relationship management in service. The fourth and the fifth units deal with managing customer service function and globalization of services, respectively.

Internal Marketing refers to the promotion of a company's goals and objectives to internal stakeholders, who are employees. The twentieth unit, *Internal Marketing*, begins by defining and introducing the concept of internal marketing. It discusses the role played by internal marketing, and the various components of an internal marketing program. The unit ends with a discussion on how to develop and implement an internal marketing program.

Service Failure occurs when the service delivered fails to live up to promises made to customers and their expectations. Service Recovery refers to the compensation made to customers for the inconvenience caused by service failure. The twenty first unit, *Service failure and service recoveries,* begins by defining relationship marketing and discussing its benefits. Further the unit elucidates the differences between relationship marketing and transactional marketing and then discusses the six markets model. The impact and reasons of service failures, the service recovery paradox and issues of service guarantee are explained in detail. The unit also discusses the severity of service failure. The unit also elaborates on the various retention and service recovery strategies. The unit ends with a discussion on the role played by communication in relationship marketing.

The twenty second unit, *Customer Relationship Management*, defines and discusses the history of CRM. The unit describes the benefit of CRM to consumers and service organizations. It then discusses technology driven CRM and CRM life-cycle management. The unit explains the critical success factors in CRM. The unit ends with a discussion on loyalty program and analytical CRM.

Customer Relationship Management (CRM) uses customer insights gained from customer data to optimize business relationship with customers to enable sales growth, customer retention and customer profitability. The twenty third unit, *Developing and Managing the Customer-Service Function*, defines customer service, and explains how a service organization can enhance its customer service. It discusses how technology plays a vital role in improving an organization's customer service. The unit also discusses the customer service management cycle. The unit ends with a discussion on enhancing customer service through an improved service delivery process and the various steps to be taken to implement an effective customer service program.

Services Sector, which is the single largest contributor to the world economy has been influenced by globalization. The twenty fourth unit, *Globalization of Services*, discuss the growth in global service markets and the factors influencing globalization. The unit explains the various overseas market entry decisions and assesses globalization. It also discusses the challenges in the global market and the factors that influence the success of a global firm. At the end, there is a discussion on the prospects of global marketing of services.

Unit 20

Internal Marketing

Structure

"Customers will never love a company, until employees love it first."

– Simon Sinek (British-American author and inspirational speaker)

20.1   Introduction

When a job seeker begins his/her search, his/her queries might look like this: "Top companies to work for" or, alternatively, "Top companies in X industry." It makes sense — nowadays, a company's reputation matters more than ever.

In the unit 19 of Block 4, we discussed physical evidence in services. In this unit, we will take a look at internal marketing.

As seen earlier, employees constitute the internal market of an organization. They are as important as the external customers as they play a pivotal role in satisfying the end customer and running the business. Unless these internal customers are satisfied with the work environment and other benefits offered by their employers, they will not be motivated to offer the best service to the external customers. The employees of an organization form the point of interaction between the organization and its customers. Therefore, the quality of service offered by them determines the relationship of the customers with the organization.

Organizations that fail to meet customer expectations will see their profitability decline gradually and may even be forced out of business. This is especially true in the current fiercely competitive business environment that provides a lot of opportunities to the customer. Employees are a key source of competitive advantage for service-oriented organizations. Though this is true for product organizations too, it is more so for service organizations. Recognizing this, organizations across the world have started giving their internal customers due importance. They are competing to attract and retain skilled and talented employees. The competition among companies for internal customers is as intense as the competition for external customers.

This unit will discuss the definition of internal marketing and the role played by it. It will then move on to discussing the different components of internal marketing. Finally, it will talk about the process of developing and implementing an internal marketing program.

20.2 Objectives

After studying this unit, you should be able to:

- Define internal marketing

- Recognize the role of internal marketing

- Discuss the components of an internal marketing program

- Explain how to implement an internal marketing program

20.3 Definition of Internal Marketing

According to Berry, internal marketing is the process of "viewing employees as internal customers, viewing jobs as internal products that satisfy the needs and wants of those internal customers while addressing the objectives of the organization."

Berry and Parasuraman[1] define internal marketing as the process of "attracting, developing, motivating and retaining qualified employees through job-products that satisfy their needs."

According to Mohammed Rafiq and Pervaiz K. Ahmed, internal marketing is "a planned effort using a marketing-like approach to overcome organizational resistance to change and to align, motivate and inter-functionally co-ordinate and integrate employees towards the effective implementation of corporate and functional strategies in order to deliver customer satisfaction through a process of creating motivated and customer-oriented employees."

---

[1] A. Parasuraman, Valarie A. Zeithaml and Leonard L Berry, "An Empirical Examination of Relationships in an Extended Service Quality Model", Report No.90-122 (Cambridge: Marketing Service Institute), 1990.

Example: Harnessing Inernal Marketing at NerdWallet

NerdWallet operates out of Silicon Valley, USA. It offers an app and website that provides personalized, unbiased and actionable personal finance guidance to consumers to help them make smart money moves. It is always on the lookout for prospective team fits. Connecting with the right people and conveying the brand's nerdy culture are top priorities.

NerdWallet uses LinkedIn Pages to share company news and raise general market awareness, but particularly uses the space as a tool for recruiting. This is where the organization's social strategy diverged on LinkedIn compared to other channels. NerdWallet's top-performing posts often highlight the office culture, including quarterly updates on corporate social responsibility initiatives. LinkedIn has been instrumental in helping NerdWallet attract the right talent to build its staff..

Source; Hutchinson, A. (May 24, 2022). How to Use LinkedIn to Highlight Your Brand Culture, and Attract the Right Candidates. Retrieved from https://www.socialmediatoday com/news/how-to-use-linkedin-to-highlight-your-brand-culture-and-attract-the-right/624338/. Accessed on 30-5-2022

20.4   Role of Internal Marketing

From the above definitions, it can be understood that internal marketing involves attracting and retaining the best talent in the market and motivating them to contribute to the organizational objectives. Internal marketing offers many advantages. Some of these advantages like high productivity and increased return on investment fall within the internal sphere of the organization. Others like better customer relationships and enhanced organizational image fall in the outer sphere of the organization. Internal marketing plays an important role in the following areas:

Customer attraction and retention: Internal marketing motivates employees to provide the best service to every customer and earns their commitment to strive for excellence in rendering services. Customers who enjoy superior quality service patronize the organization and bring in more business through repeated and increased purchases. They also help in bringing in new customers for the company when they provide positive word-of-mouth publicity. Therefore, internal marketing helps in attracting new customers and retaining the existing ones.

Employee retention and motivation: Internal marketing seeks to design jobs that provide satisfaction and enrichment to employees, create the right work environment and offer a reward system that motivates them to perform better. This helps the organization enjoy high employee productivity and also their commitment and loyalty towards the organization. It also helps in attracting the best resources in the talent market as the turnover rate would be low and the employees carry a positive image of the organization.

Corporate image: Internal marketing ensures that all the employees understand the mission, vision and objectives of the organization and their role in achieving the organizational objectives. When employees feel valued and respected by the organization, they work with enhanced commitment. Committed employees render superior service to exceed customer expectations and these delighted customers develop a positive attitude towards the organization. The satisfied employees together with customers create a good corporate image of the organization in the society.

Example: Internal Marketing Role - Corporate Image @ TCS

TCS has also been consistently rated as a top company in the 'Business World's Most Respected Companies' for many years. TCS was also recognized as a 'Global Top Employer' for the year 2019 by the Top Employers Institute in a survey conducted in over 16 countries. This award which was given for the exceptional workplace policies, work culture and investment in employee empowerment is conferred on TCS for the fourth consecutive year since 2015. When employees consistently rate TCS high on many parameters, it is clear that the organization's mission, systems and policies promote conducive work environment and employees too appreciate the care and affection extended.

Source: https://www.tcs.com/tcs-only-top-10-it-services-firm-recognized-global-top-employer-2019, February 20, 2019

Change management: Internal marketing emphasizes on listening to employees, addressing their concerns, and empowering them to play an important role in the organization. It believes in involving the employees while introducing any changes in the existing system by seeking and valuing their opinions and suggestions. Employee suggestions that are feasible and valuable are implemented and the employees rewarded suitably. This system generates enthusiasm amongst employees and encourages them to participate in implementing organizational change programs.

Organization's performance and continuity: Internal marketing emphasizes continuous training and development of employees to meet the future requirements of the organization and also help them in achieving their individual aspirations. This ensures that organizations have a continuous and uninterrupted supply of talented and motivated people. Even when some employees leave the organization due to various reasons like retirement, resignation, etc., the organization will have suitable people at the next level to take over. This helps in preventing situations where employees face ambiguity and uncertainty due to lack of able managers, which would eventually affect the organization's performance.

Example: Employee Attraction and Retention @ Starbucks

Starbucks does a good job ensuring they cultivate a strong community among their employees. For instance, they refer to current employees as partners, instilling a sense of pride in each employee. Additionally, Starbucks created Instagram and Twitter accounts specifically for @StarbucksJobs, which they use to promote their employer brand and interact with job seekers.

By creating social media accounts with the sole purpose of demonstrating appreciation for current employees and evoking passion in potential candidates, Starbucks showed its commitment to being more than just a product.

Source: Forsey, C. (May 6, 2020). Everything You Need to Know About Employer Branding. Retrieved from https://blog.hubspot.com/marketing/employer-branding\, Accessed on 30-5-2022.

Check Your Progress - 1

1. Which of the following enables employees of customer-focused organizations to exhibit a high level of motivation, energy and skill level to serve customers?

    a. Internal marketing

    b. Relationship marketing

    c. Direct marketing

    d. Indirect marketing

    e. Communicative marketing

2. Which of the following is defined as the process of attracting, developing, motivating, and retaining qualified employees through job-products that satisfy their needs?

    a. External marketing

    b. Relationship marketing

    c. Direct marketing

    d. Indirect marketing

    e. Internal marketing

3. Which of the following steps may not enhance performance?

    a. Customer attraction and retention

    b. Employee retention and motivation

    c. Organization's performance and continuity

    d. Change management

    e. Enabling departments to work in isolation

4. Identify the statements that do not hold true regarding internal marketing.

    a. It is a process of attracting, maintaining a team in multi-service organization to enhance customer relationships

    b. It involves attracting and retaining the best talent in the market and motivating them to contribute to the organizational objectives

    c. It is the process of viewing employees as internal customers, viewing jobs as internal products that satisfy the needs and wants of those internal customers while addressing the objectives of the organization

    d. It is a process that fosters communication and enables co-ordination among employees to enable teamwork

    e. It is a process through which corporate objectives are clearly defined and disseminated to all employees of the organization

5. Which of the following initiatives may directly further internal marketing efforts that foster brand advocacy?

    a. Encouraging employee suggestions and inputs on corporate policies, management and operation

    b. Implementing employee suggestions that have merit

    c. Recognizing the value of inputs and suggestions given by employees

    d. Corporate objectives to be clearly explained and disseminated throughout the organization

    e. Encourage employees to enthusiastically share the company's products and offerings in social media

---

Activity 20.1

ETrans, a BPO company located at Mumbai, caters to the financial services needs of various foreign clients. ETrans started experiencing an attrition rate considerably above industry levels. This prompted the HR manager to make a proposal to the top management to invest ₹ 250 million in internal marketing initiatives. However, the top management questioned the rationale behind investing such a huge amount on employees and requested the HR manager to brief them about the likely benefits. Outline some of the benefits that a service provider like ETrans can gain through internal marketing initiatives?

Answer:

20.5 Components of an Internal Marketing Program

Product, price, place, promotion, people, physical evidence and processes are the various elements of external marketing of services. Similarly, internal marketing also has some basic components. The components of internal marketing program are motivation, coordination, information and education. We will examine the following components of an internal marketing program:

• Recruitment and selection

• Motivation

• Education and Training

• Coordination

• Empowerment

• Rewards

• Communication

• Knowledge sharing

The process of internal marketing starts with attracting and selecting the best and the most suitable resources for the organization. The next step is to motivate them through effective job design and reward systems. There should be coordination and cooperation among employees to ensure satisfaction and better productivity. This can be achieved by encouraging teamwork in the organization. Employees also need to be empowered to play a more important role in organizational decision-making as this enhances their self-esteem and they feel valued by the company. Education and training of employees is important for the growth and progress of the organization and of the employees as well. The different components of internal marketing are used for developing and implementing an internal marketing program, which is discussed in the following section.

Example: HubSpot Focuses on Diverse Components of Internal Branding

HubSpot's Culture Page begins with a document called the Culture Code, which publically pronounces every vision and value HubSpot hopes to promote and instill in its employees, candidates, and customers.

Moving further down the page, you'll find sections discussing opportunities for learning and development, HubSpot's commitment to diversity and inclusion, and interviews with real HubSpot employees. The language also consistently focuses on the job seeker: "Here's how we can help you grow."

The page ends with a "day in the life" video made by HubSpot employee Matthew Watkins, demonstrating HubSpot's relentless commitment to communicating its culture via its employees. Ultimately, the page is a powerful example for how you might use interactive media to promote your employer brand.

Source: Forsey, C. (May 6, 2020). Everything You Need to Know About Employer Branding. Retrieved from https://blog.hubspot.com/marketing/employer-branding. Accessed on 31-5-2022

20.6 Developing and Implementing an Internal Marketing Program

Different organizations adopt different ways of implementing an internal marketing program. The success of the program depends on the commitment and seriousness of the organization and its ability to garner employee support. If the management makes sincere efforts to collect information on employee profile and their attitudes, it can succeed in developing a strategy to garner employee support and thereby, implement an effective internal marketing program. The basic frame-work for implementing an internal marketing program is discussed below.

20.6.1 Recruitment and Selection

Organizations need to attract qualified and talented individuals so that they can offer quality services to customers. It is not just the talent of the individuals that matters, but also their psyche. They should have the right attitude and mindset to work in a service organization. Therefore, in service organizations where employees interact with customers and create an image of the organization and the service in their mind, the recruitment process should emphasize on the candidate's attitude, interpersonal and communication skills. For example, if an organization wants to recruit a person to attend customer calls, the management should not just look for a person who speaks grammatically correct language. The person should also have good inter-personal skills so that he/she interacts in a pleasing and empathetic manner. Employees in positions like this act as ambassadors of goodwill for the organization and strengthen its relationship with customers.

In a BPO firm, the recruitment process includes a written test to check the candidates' linguistic abilities, a voice test to check their accent and pronunciation and an audio test to evaluate their listening skills. The candidates who clear these tests are then tested for their analytical skills, computer skills and customer service skills. The candidates who succeed in all these tests are selected and given the necessary training before they are actually put on the job. This elaborate procedure helps the BPO firms choose the right candidate for the job. It is not enough if the candidate has excellent linguistic skills, he also needs the patience to handle irate customers.

Different service industries need different capabilities, though some of the capabilities are common across different industries.

Based on 10 million employee ratings across 50,000 companies (2019)[2] in a study by comparably (a US-based workplace culture and compensation site), Google has been rated as the company which provides the best compensation and benefits to employees. Google employees have also stated that they are very satisfied with the work culture. One of the primary reasons cited for this high level of satisfaction among Google employees is its most admired 'hiring process'.

---

[2] https://www.cnbc.com/2019/10/07/comparably-top-100-companies-with-best-compensation-2019.html

Google's hiring process is designed to hire the most talented, articulate, creative and innovative persons. Cultural fit and alignment of employee and organizational goals is equally important for Google. Over one million applicants apply for jobs, but Google hires only about 5,000 persons every year, depending on the requirement and economic conditions. Google thus has a highly competitive and lengthy hiring process, where no 'compromises' are made. Google communicates with all applicants apprising them of the status of their candidature and also ensures that there is consensus in recruitment to ensure that high standards are maintained and no mistakes are committed while hiring.

Organizations have to be cautious of the impending pitfalls in the process of recruitment and selection. They should ensure that they do not raise the expectations of employees so high during the whole process that they cannot handle those expectations later. The promise of an extremely challenging assignment and an elaborate selection procedure can raise the expectations of prospective candidates.

Elaborate recruitment processes raise the expectations of interviewees and often talented and highly capable candidates who join feel frustrated and leave. Hence, service organizations should ensure that the recruitment and selection process do not make explicit or implicit promises that cannot be fulfilled.

20.6.2 Motivation

Organizations have to motivate employees to serve their customers with commitment and dedication. Employees should be made to understand the mission and vision of the organization and should be allowed to play a role in determining the organizational objectives. They should be aware of the importance of their role in achieving organizational objectives. On the successful completion of a project or efficient handling of a task, the management should publicly acknowledge the employee/employees responsible in a meeting or get-together. Timely and sincere appreciation will go a long way in motivating employees to contribute their best to the organization.

Compensation, which is a very important motivating tool, should be linked to the performance of employees. In the traditional system, compensation was linked to the position of the employee in the hierarchical ladder and employees at the lower levels would often get demotivated as they felt that their performance was not suitably rewarded. Most modern organizations adopt the 'variable pay' system, which is based on the concept of rewarding performance. The benchmarks and measures for superior performance should be established and communicated to employees. They should be regularly updated about their performance and given all the support required to improve their performance. When an employee realizes that the organization cares for him and is sincerely interested in his development, he will nurture a positive attitude towards the organization and will be more loyal and committed to it.

Management By Walking Around (MBWA) is also an effective tool to motivate employees. Managers practising MBWA keep moving around the office, wishing employees at their desk, finding out if they have any problems, and helping them accordingly. This concept was used extensively by William Hewlett, the founder of HP. He went personally to the desk of each employee and talked to him/her. MBWA enables managers to build personal relationships with employees and motivate them to perform better.

Training and development programs, job enrichment, mentoring, improving the quality of work life also help organizations create a positive work environment and motivate employees.

20.6.3 Education and Training

The most important task of a service organization after it hires a candidate is to make him understand the role he has to play in the organization, the importance of his role, and the kind of co-operation he requires from his colleagues to serve the customers effectively. He should be guided to develop a holistic view of the organization. In service organizations, employee attitude plays a very important role in determining the quality of services. Organizations should therefore impart the requisite knowledge and develop the right attitude in them.

In today's competitive business environment, organizations have to continuously upgrade their technologies and change their strategies. Consequently, they need to train and develop their employees to meet their changing needs. Even during those periods when the organization does not make any significant changes, it should encourage its employees to be proactive and work on developing their skills and knowledge so as to enhance their productivity.

Based on their long-term plans and strategies and the changes in the external business environment, organizations should estimate their future requirements, the knowledge and skills they need to develop for efficient functioning of the organization and train their employees accordingly.

Organizations, in their rush to meet organizational needs, sometimes tend to ignore the individual interests of employees. For example, suppose an IT firm imparts training in leadership skills to all its employees, without understanding their interests, they may be ignoring some of the employees who might be interested in pursuing a specialized technical or research role and may not be interested in the leadership training. Therefore, the management should attempt to know the interest areas of employees before imparting training programs.

20.6.4 Coordination

Implementing the concept of working in teams offers many advantages to organizations. Teams enhance employee productivity, their quality of work life and customer service standards. When employees work effectively in teams, they can effectively resolve their problems. As each member explains his perspective

of the problem and gives a suggestion to resolve it, the team is able to synergize these ideas and arrive at the best solution. Since employees come from different backgrounds, they can find innovative solutions for problems. The members can also think of better ways to execute a particular task and thus improve the quality and speed of service.

Teams enhance employees' success thereby boosting their morale. Team spirit also adds to the employees' sense of belonging to the organization. Therefore, organizations should strive to create an appropriate environment for teams to thrive and succeed. Organizations conduct special training programs for their employees to help them improve their communication, interpersonal, problem solving, negotiation, conflict management and coaching skills, which make them better team players and leaders.

20.6.5 Empowerment

Employee empowerment is another pre-requisite for the success of internal marketing. Service organizations should give their employees enough freedom to take important decisions when required. This not only helps employees render better service to customers, but also enhances their own self-esteem. Customers expect service personnel to help them out when faced with a problem. At such times, if employees are forced to adhere to rules and regulations or have to consult their superiors before making a decision, it may result in poor quality service for the customer and lost business for the organization. The employee would also feel guilty and helpless in such situations. For example, a customer who has a savings account with a bank for the past nineyears needs money urgently and rushes to his branch (assume the bank has no ATM facility). He however forgets to carry his passbook and approaches an officer for help. In spite of the fact that the officer has known this gentleman for the past nine years and his account shows enough balance, he cannot break the rules of the bank, which say that the customer has to carry a cheque or his passbook. In the absence of the branch manager, the officer says that he is not empowered to take a decision and declines the customer's request. The dissatisfied customer may close his account and take his business to another bank. The officer would also feel demotivated and demoralized at his lack of power to take small decisions.

Managers should therefore attempt to minimize rules and regulations that restrict employees from offering effective customer service. They should encourage employees to think independently and creatively and take decisions in the best interests of the organization. Southwest Airlines and ABB for example, have self-managed teams which take their own decisions without consulting higher level managers. In India, companies like TCS, Wipro and Infosys seek to empower employees by sharing their success and profits with them. Organizations can conduct training programs for employees to guide them in utilizing the freedom given to them wisely and judiciously.

Activity 20.2

Wipro gives importance to employee empowerment as part of its internal marketing program. It has developed an intranet channel called 'Channel W', which features on the desktop of every employee. The channel features various business-related programs as well as personal entertainment programs with the objective of binding employees together. Besides, the channel helps generate and sustain interest among employees by enabling the company to share its success and views through this two-way communication channel. What do you understand by employee empowerment and how does it add to better customer service?

Answer:

20.6.6 Rewards

Organizations need to have a proper system to measure their performance and reward them. Rewards increase job satisfaction and morale of the employees.

They can be either intrinsic or extrinsic in nature. A reward is said to be intrinsic if it cannot be seen or experienced by others except the employee who receives it. Intrinsic rewards result in internal satisfaction to those employees who receive them. For example, an organization can assign a complex project or a challenging assignment to the employee who likes to work on it. And on successful completion, a representative of the top management may personally congratulate the employee or send a letter of appreciation. For example, the employee who offers superior customer service at GE call center receives a letter of appreciation from the head of call center operations.

Extrinsic rewards are tangible in nature and are normally under the control of the organization. They include: promotion, bonus, salary hike, ESOPs (Employee Stock Option Plans), etc. Infosys, which was a pioneer in making its employees rich through Employees Stock Option Plans (ESOP), announced a benchmark 'performance-based stock option plan' in March 2019[3]. This ESOP-2019 program links long-term employee incentives with shareholder value creation. As per this proposed plan (which is subject to shareholder approval) over 50 million shares (which is about 1.15% of company's equity shares) will be allotted to employees based on their achieving challenging performance criteria.

[3] https://www.businessinsider.in/infosys-allots-50-million-shares-to-employees/articleshow/69371959.cms

Rewards can also be classified as financial and non-financial. Financial rewards are the rewards that employees receive in monetary terms. They include: bonuses, annual incentives, ESOPs etc.

Non-financial rewards are intangible and are paid in kind. For example, the organization may pay for the membership of an employee in a prestigious club, present the employee with a luxury car with a chauffeur or give him a spacious house in a posh locality.

Some rewards are given to all the employees irrespective of their performance. They are called benefits. Benefits include: subsidized food from the office canteen, scholarships for employee's children, reimbursement of medical expenses incurred by the employee and his family, or a paid vacation for the employee with his/her family once in a year or two and the like.

20.6.7 Communication

Organizations should facilitate two-way communication to encourage employee participation and empowerment. The flow of communication should not be restricted to the management's instructions to the lower level employees. Employees should also be given an opportunity to voice their opinions, concerns and ideas. Many organizations have employee suggestion schemes so that employees get an opportunity to convey their ideas and suggestions. However, there are only a few organizations that actually consider these suggestions seriously and implement them. When employees recognize that the organization does not value their suggestions, they lose interest in the scheme and in the organization as well.

Similarly, organizations also maintain complaint boxes where employees can drop their grievances. However, only a few organizations have committed managers who consider the grievances of employees with empathy, take time to counsel the aggrieved employees, address their concerns and resolve their problems. Failure to listen to employees' problems and concerns can lead to high employee turnover in the long-run. An organization needs to conduct employee surveys before it introduces new policies and processes or modifies the existing policies and procedures. SAP India, Wipro, Bharat Electronics Limited (BEL), Taj Group of Hotels and Tata Teleservices are examples of companies, which are implementing suggestion schemes in their organizations.

Activity 20.3

Attracting and retaining the best talent in the market, and subsequently motivating them to contribute efficiently towards the realization of organizational goals, are some of the most important activities of an organization. From this perspective, discuss how LIC (Life Insurance Corporation) can implement an internal marketing program.

Answer:

20.6.8 Knowledge Sharing through Knowledge Management

Knowledge management is a process of creating, disseminating and utilizing knowledge for organizational development. Organizations practicing internal marketing should not only impart knowledge to employees but also encourage them to share knowledge with each other to facilitate Knowledge Management (KM). When practiced effectively by organizations, KM offers several advantages in terms of enhanced knowledge base and improved customer service. KM enables organizations to identify and eliminate inefficiencies from their systems, identify and remove redundant processes, streamline their operations, improve service delivery processes and therefore customer service. KM also enables organizations to introduce new products and services in the market faster and increase their revenues by gaining an edge over their competitors.

By rewarding employees who share their valuable ideas and knowledge and contribute to the success of the organization, organizations can sustain the development of KM. This would also enhance employee morale and loyalty. Many organizations are using information technology to derive more value from KM. Google, Hoovers, Oracle, PeopleSoft, SAP, Wipro and Infosys are some of the service organizations that are practicing KM.

Example: Zappos Motivating Employees through Internal Marketing Program

Zappos was an American online shoe and clothing retailer based in Las Vegas, Nevada, United States. It used social media to great effect, bringing the workplace to life on platforms like Instagram and Twitter through its @insidezappos and @zapposculture handles. The company had a lot of success engaging people outside the company by giving them authentic and ongoing insights into what it's like to work inside it by encouraging employees to share pictures and videos of what they're getting up to at work.

Not only was there an emphasis on fun and positivity though, but it's also become known as a company that places real value on giving back to communities through activities like Zappos for Good. All these engagements helped to cement the company's reputation as a great brand to work for.

Source: Blumenfeld, Z. (May 7, 2020). I Spent a Day Emerged In The Zappos Culture, Here's What I Learned. Retrieved from https://www.cultureconusa.org/post/ zappos-company-culture-trip-what-i-learned. Accessed on 31-5-2022.

Check Your Progress - 2

6. Which of the following is not a financial reward?

    a. Car

    b. Bonus

    c. ESOPs

    d. Annual incentives

    e. Performance linked incentives

7. An owner of a car goes to a service station and demands that certain defective parts, covered under warranty, be changed. However, in the absence of the service center manager, the mechanic proves to be of little help as the signature of his senior is required for the replacement of the parts. This dissatisfies the owner who then moves to another service station to avail of the same service. Which factor among the following could have prevented the service station from losing a customer?

    a. Rewards to employees

    b. Motivation to employees

    c. Empowerment of employees

    d. Co-ordination among employees

    e. Training to employee

8. All the options given, except one, are the components of an internal marketing program. Identify the exception.

    a. Processes

    b. Rewards

    c. Knowledge sharing

    d. Empowerment

    e. Co-ordination

9. Which of the following employer initiatives helps employees play a more important role in the organizational decision-making by making them feel valued by the company?

    a. Reward

    b. Empowerment

    c. Coordination

    d. Training

    e. Mentoring

10. If organizations need to attract qualified and talented individuals to offer quality services to customers, on what aspect of internal marketing development, should they focus?

    a. Employee empowerment

    b. Employee recruitment

    c. Education and training

    d. Reward

    e. Knowledge sharing

20.7   Summary

- Internal marketing is a process in which organizations consider employees as internal customers. Businesses strive to satisfy their needs and requirements at work so that they, in turn, offer quality service to external customers.

- Internal marketing plays an active role in retaining customers as well as employees, enhancing corporate image, implementing change management, and ensuring the organization's success.

- The major components that organizations need to include in the design of their internal marketing program are recruitment and selection; motivation and rewards; education and training; coordination; empowerment; communication, and knowledge sharing.

- For implementing an internal marketing program effectively, organizations need to recruit skilled and talented people, motivate them with rewards, achieve coordination among employees, empower them, encourage two-way communication, and promote knowledge sharing through knowledge management.

20.8   Glossary

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

Internal Marketing: It is the process of "viewing employees as internal customers, viewing jobs as internal products that satisfy the needs and wants of those internal customers while addressing the objectives of the organization." (According to Berry).

Knowledge Management: It is a process of creating, disseminating, and utilizing knowledge for organizational development.

20.9 Self-Assessment Test

1. "Employees constitute the internal market of an organization, and unless and until they are satisfied, they will not be motivated to offer the best service to the external customers." Substantiate this statement. Define internal marketing. Explain its importance in detail.

2. Just like the elements of the external marketing of services, the internal marketing program also comprises various components. Describe them in detail.

3. "Different organizations adopt different ways to implement an internal marketing program. However, there is a basic framework for implementing an internal marketing program." Discuss.

20.10 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.

20.11 Answers to Check Your Progress Questions

1. (a) **Internal Marketing**

   Internal marketing is promotion of organizational objectives, services to the employees of the company. In the case of customer-focused organizations serving customers becomes a primary objective. Internal marketing keeps employee motivation levels high to serve customers.

2. (e) **Internal Marketing**

   Berry and Parasuraman, define internal marketing as the process of "attracting, developing, motivating, and retaining qualified employees through job-products that satisfy their needs." Internal marketing involves attracting and retaining the best talent in the market and motivating them to contribute to the organizational objectives.

3. **(e) Enabling departments to work in isolation**

    Internal marketing involves attracting and retaining the best talent in the market and motivating them to contribute to the organizational objectives. It plays a vital role in the areas of customer attraction and retention; employee retention and motivation; corporate image; change management; and organization's performance and continuity. Thus, all options, except 'e' enhance organizational performance. When departments operate in isolation, achievement of the corporate objectives may not be possible.

4. **(a) It is a process of attracting, maintaining a team in multi-service organization to enhance customer relationships.**

    Statements 'b', 'c', 'd' and 'e' refer to internal marketing. Statement 'a' defines Relationship marketing.

5. **(e) Encourage employees to enthusiastically share the company's products and offerings in social media**

    All the other options other than 'e' enable internal marketing by keeping employee motivation at a high level. Only option 'e' directly promotes brand advocacy by employees.

6. **(a) Car**

    Rewards can be classified as financial and non-financial. Non-financial rewards are intangible and are paid in kind. For example, the organization may pay for the membership of an employee in a club, present the employee with a car, or give him/her a house. Financial rewards are the rewards that employees receive in monetary terms. They include: bonuses, annual incentives, productivity-linked incentives and ESOPs.

7. **(c) Empowerment of employees**

    Service organizations should give their employees enough freedom to take important decisions when required. The given instance would have been averted if the service station had empowered its employees. Empowerment not only helps employees render better service to customers but also enhances their self-esteem.

8. **(a) Processes**

    The components of an internal marketing program include: recruitment and selection, motivation, education and training, coordination, empowerment, rewards, communication, and knowledge sharing. Product, price, place, promotion, people, physical evidence and processes are the various elements of external marketing of services.

9. (b) **Empowerment**

Empowerment helps the employees play a more important role in the organizational decision-making as it enhances their self-esteem and makes them feel valued by the company. Service organizations should give their employees enough freedom to take important decisions when required. This not only helps employees render better service to customers but also enhances their own self-esteem.

10. (b) **Employee Recruitment**

Organizations need to attract qualified and talented individuals to offer quality services to customers. The process of attracting and selecting qualified individuals for employment is known as Recruitment.

Unit 21

Service Failures and Service Recovery

Structure

"It's fine to celebrate success, but it is more important to heed the lessons of failure."

- Bill Gates, the founder of Microsoft; an American business magnate, software developer, investor, author, and philanthropist.

21.1   Introduction

Businesses, for long, tried to design extremely standardized processes, introduced sophisticated technologies, and fostered customer-centricity. While this certainly helped deliver great customer service consistently, it was not able to eliminate discrepancies completely. Service delivery systems were bound to displease a few even when they are at the top of their game. What is the right thing to do when it goes down? Let's dig in to find out what customer service recovery entails.

In the previous unit, we discussed internal marketing. In this unit, we will discuss service failure and service recovery and relationship marketing in service industry.

During the 1990s, relationship marketing became a topic of discussion in the academic world and the corporate world as well. Traditionally, organizations laid emphasis on marketing activities that aimed at attracting new customers. However, with it being proved that attracting new customers was a costly proposition for any organization when compared to retaining existing customers, the focus shifted. Relationship marketing, thus, advocates retention of existing customers. According to Pareto's law, 20% of the customers generate 80% of the revenues of an organization. If an organization applied relationship marketing to these 20% customers, it could prevent them from switching over to competitors and thus maintain its profitability. Relationship marketing involves interacting with customers, collecting information from them, compiling it to form a meaningful customer database, and leveraging on it to offer personalized services to them. Leading companies worldwide are practicing relationship marketing to enhance customer satisfaction and increase their profitability.

This unit will discuss the definition of relationship marketing and the benefits offered by it. It will then go on to discuss the differences between relationship marketing and transactional marketing, and the six markets model. It will also cover the various customer retention strategies. Finally, it will take a look at service recovery and the importance of communication in customer relationship management.

21.2   Objectives

After studying this unit, you should be able to:

- Define relationship marketing
- Recognize the benefits of relationship marketing
- Differentiate between relationship marketing and transactional marketing
- Explain the six markets model
- Determine the role played by strategy in relationship marketing
- Analyze the various customer retention strategies
- Discuss the recovery of customers
- Evaluate the importance of communication in relationship marketing

21.3   Relationship Marketing Defined

Different authors have defined relationship marketing in different ways. Some of these definitions are:

➢ According to Berry and Parasuraman[4], "Relationship marketing is attracting, maintaining and – in multi-service organizations – enhancing customer relationships."

---

[4] Parasuraman, A.Zeithaml, V.Berry, "A conceptual model of service quality and its implications for future research", Journal of Marketing, 1985,

> ➢ According to Shani, D. and Chalasani, S., relationship marketing is "an integrated and coordinated effort to identify, maintain, and build up a network with individual consumers and employees, and continuously strengthen the network for the mutual benefits of both sides, through interactive, individualized and value-added contacts continuously and over a long period of time."

> ➢ Christian Gronroos gives the definition – "(The purpose of) ... relationship marketing is to identify and establish, maintain and enhance, and when necessary terminate relationships with customers (and other parties) so that the objectives regarding economic and other variables of all parties are met. This is achieved through a mutual exchange and fulfillment of promises."

Example: Relationship Marketing @ Starbucks

Starbucks, an American multinational chain of coffeehouses, changed the way the world drinks coffee. The company taps into the power of social media to connect with their loyal customers, using their social channels and app to send special offers to their followers and build anticipation for product launches. When they bring back seasonal favorites, they have long lines of returning, loyal customers patiently waiting. They also share quick videos and images of customers drinking their product on Instagram. Sharing user-generated content shows that you appreciate your fans, and those fans will come back for more.

Source: (May 23, 2022). The Best Relationship Marketing Strategies to Grow Your Business. Retrieved from https://sendoso.com/blog/the-best-relationship-marketing-strategies-to-grow-your-business/. Accessed on 31-5-2022.

21.4 Benefits of Relationship Marketing

Long-term relationships are beneficial for both customers and organizations. Organizations, as already discussed, benefit from lowered costs and increased profitability. The other advantage for them is that they already know the requirements and expectations of their customer base and, therefore, can serve them better. The customers enjoy the services of an organization that understands them and their requirements. Another advantage for them is that they have a reliable service provider. Let us know some of these advantages in detail.

21.4.1 Benefits for the Firm

If a firm maintains good relations with its customers, the customers will continue to avail of its services without being detracted by competitors. Research has found that people tend to increase the amount of money they spend on services with each visit they make to a service provider. So, the organization will benefit from increased revenues from its existing customers.

Organizations can also cut down costs involved in attracting new customers. To attract new customers, they have to spend heavily on advertisements, promotional

campaigns and discount offers. But they can derive more benefits merely by maintaining a good relationship with existing customers. Existing customers will become repeat customers and even provide free word-of-mouth publicity, which will bring in more customers and additional revenues.

To offer personalized services, the service provider has to take some time to understand the customers and get to know their tastes and preferences. The new customer, on his part, is hesitant about depending on a new service provider for all his requirements and takes time to assess the quality of service offered. Also, new customers may have some doubts about the terms and conditions of the services. So, there is a significant time gap before the service provider and a new customer begin to trust each other and enter into a relationship. Effectively, the service provider has to put in considerable time, effort and resources to win the confidence of a new customer and build up a relationship with him/her. However, once the service provider successfully establishes and strengthens the relationship, it becomes quite easy to retain customers.

When an organization emphasizes relationship management along with the quality of services, there could be only stray cases of customers switching to competitors. The word-of-mouth publicity by existing customers also brings in new customers. Therefore, there is less pressure on the employees of organizations to attract new customers. Employees are expected only to maintain and continuously improve relations with existing customers and retain them. Because of the limited work pressure, employee turnover is also lower in these organizations. Therefore, the organization saves a lot in terms of the costs of recruitment and training of employees.

21.4.2 Benefits to Customers

By maintaining a consistent relationship with a service organization and opting for its services repeatedly, the customer can save on time as well as the effort required to choose a new service provider and then test its service capabilities. Customers can make better and more effective use of the time involved in this process. Also, because the service provider already knows the customer requirements, the latter enjoys highly personalized services and sometimes even special services. For example, a recruitment agency gives priority to long-time customers when there is a shortage of talented resources in the market. A beautician may let her regular customer walk into her room and consult her, without making her wait at the reception for long.

Example: Amazon Bringing Business to The Firm and Value to The Customers

Amazon, an American multinational technology company, was the master at making things easy for their customers, which drives loyalty and repeat business.

Contd….

They drive sales through customer wish lists, make the purchase and shipping process easy, and offer lightning fast, free delivery for customers who pay for prime membership. They also make returns easy – and free – with their drop-off locations or return shipping labels.

Source: (May 23, 2022). The Best Relationship Marketing Strategies to Grow Your Business. Retrieved from https://sendoso.com/blog/the-best-relationship-marketing-strategies-to-grow-your-business/. Accessed on 31-5-2022.

21.5   Relationship Marketing and Transactional Marketing

The method of marketing in which a service organization or its employees communicate with the customer only when he/she approaches it for service is called transaction marketing. In this kind of marketing, a service representative of the organization provides only the service sought by the customer. He does not make any effort to get to know whether the customer is satisfied with the service, whether he needs some other service, or would like to come back again for the service. He is not interested in gaining the loyalty of the customer.

Organizations which adopt the transactional style of marketing can be said to be lacking foresight. Their employees attempt to sell their service considering it to be a onetime process. Even though they may offer quality service, the fact that the personal touch and focus on the customer is lacking affects the organizations and they often end up losing their customers. For example, most people would like a bank which understands their personal needs and suggests suitable investment options. They would prefer it to a bank which provides excellent service, but treats them as just one of its many customers.

When a service organization seeks to establish and maintain a long-term relationship with its customers, it is known as relationship marketing. The employees of the organization communicate with customers not just during the service transaction, but beyond that as well. Because of constant contact with the customer, the employees get to know the customer better, and having understood his/her expectations, offer improved service when he/she comes to them for repeated service. This continuous improvisation of service delivery develops and strengthens relations between the customers and the organization and eventually results in customer retention.

While the employees of organizations that adopt transaction marketing fulfill only the basic requirements of the service, the employees of organizations which emphasize relationship marketing go out of their way to satisfy their customers. For example, let us say a customer visits supermarket ABC for a particular product. The sales executive at ABC tells him that the product is out of stock. The customer visits XYZ, but the product is not available there either. However, the sales executive at XYZ says that he can arrange to get the product if the customer

can wait for a few minutes. He arranges for the product to be sent from the go down immediately and offers it to the customer. The customer would obviously be satisfied with XYZ and would prefer it to ABC, the next time he needs to visit a supermarket.

Example: IKEA Uses Customer Feedback to Convert Transactions into Relationships

IKEA, the popular Swedish furniture store, used customer feedback as a means to drive the direction of its branding. An example of this was when they chose to change the font in its catalog. Customers hated it, and they let IKEA know about it all across the internet. The brand took notice and made sure the next catalog contained the traditional font everyone was used to. They also offered perks in their stores that bring customers back, like babysitting services and their popular Swedish meatballs.

Source: (May 23, 2022). The Best Relationship Marketing Strategies to Grow Your Business. Retrieved from https://sendoso.com/blog/the-best-relationship-marketing-strategies-to-grow-your-business/. Accessed on 31-5-2022.

21.6 Six Markets Model

A service organization needs to maintain good relations not only with its customers, but a host of other members in the network. The organization has to maintain a relationship with its employees, the different channel members, recruiters, and agencies which influence customers' decisions. They are categorized into six markets and are discussed in the following section:

21.6.1 Customer Markets

The end-customers of the product or service offered by an organization constitute the customer market of that organization. Modern organizations realize that they should make a lot of effort to retain existing customers apart from attracting new ones. This will help organizations gain higher returns on the investment made in attracting the customers.

Once an organization has identified a prospective customer, employees who interact with him, like the front-office executives, should clearly explain to him what types of services they offer and the people he would need to contact for further queries or help. When a prospect contacts an employee of the firm and requests a service, he/she becomes a customer of the firm. The employees and managers should work as a team and make the service experience a pleasant and satisfactory one for the customer. It is the responsibility of the management to remove any bottlenecks that may exist in the delivery process and ensure that there are no delays in the service process.

A satisfied customer will come back to the organization to use its services and becomes a repeat customer. At this point, the employees have to render special attention and high quality service to the customer every time he/she visits the organization. The repeat customer eventually becomes the client. A client may ignore rare shortcomings in the service offered to him since he had experienced high quality service several times in the past. But if the mistakes persist, the customer may become dissatisfied and switch to a competitor any time. Therefore, organizations should continually obtain feedback from the customer and attempt to know their level of satisfaction from time to time. They should request the customers to point out any shortfalls and take their suggestions on improving the quality of service.

Organizations should act upon customer complaints and suggestions and update the customers on the steps being taken. When the client visits the organization the next time, he/she should be able to experience flawless service. In fact, the service experience should go beyond the client's expectations and delight him/her. The delighted client will then become an advocate of the services of the organization. The client will actively recommend the service to his/her friends, relatives and acquaintances, and act as a free promotion medium for the organization.

As has been seen, retaining customers is as difficult a process as attracting new customers in terms of efforts, though the cost involved is higher for the latter process. In the long run, customer retention proves to be an inexpensive and highly effective method for increasing and maintaining the size of the customer base, when compared to the process of attracting new customers.

21.6.2 Internal Markets

Employees are the internal customers of an organization and constitute its internal market. Organizations need to maintain good relations with employees by providing them with all the amenities they need to carry out their work efficiently. Organizations should continually try to improve the quality of work life of their employees. This is because a satisfied employee is more likely to serve customers with commitment than a discontented and aggrieved one. In the service sector, employees, especially, the front-level employees who interact with the customers, are considered to be the representatives of the organization. It is very important for an organization to satisfy and retain employees. It might happen that an employee who leaves the organization may take some customer accounts with him.

For example, a customer of a bank might choose to use its services because he likes the way a particular service representative there receives him, listens to his needs, explains various services offered and gives good advice. If that representative leaves the organization and joins a competitor, and offers hassle-free transfer of the customer's account from the previous bank to the new bank,

there are few reasons for the customer to reject the offer. This is because the customer has developed a close relationship with the employee, rather than with the organization.

Organizations have to strive to win employee loyalty and commitment if they want to enjoy customer loyalty. They should ensure that the employees are satisfied with the pay, perks and other benefits being offered to them. Apart from the management, the HR department also plays a very important role in retaining and motivating employees. It should conduct employee surveys regularly to know their opinion about the company's policies and procedures and seek their suggestions to improve them. HR executives should listen to employees' grievances and address them immediately. All these efforts will help an organization retain employees and motivate them to serve the customers with complete commitment. The employees will willingly put in extra effort to delight customers, because of their commitment to the organization. They can even describe their organization as a great work place and encourage others to work with it.

21.6.3 Supplier Markets

Service organizations need some basic infrastructure to be able to offer services to their customer and internal markets. They depend on some suppliers who constitute the supplier market, to provide this infrastructure and basic services. For example, a courier agency which does not have its own flights has to use the services of some airlines to deliver letters and parcels. The agency can benefit by maintaining good relations with the airlines and can ensure careful handling of parcels, allocation of sufficient space, etc. Similarly, many airlines depend on food suppliers to provide food to their passengers on flight. By maintaining good relations with the food suppliers, airlines can offer customized, tasty and hygienic food to their customers. Another example is that of hotels that employ the services of interior designers to improve the ambience in their hotels and enhance the customer's experience during his stay.

Example: Park Hyatt Impresses Guest with John Portman and Associates Designs

The premium luxury hotel 'Park Hyatt' was designed by the renowned architecture firm John Portman and Associates. Established in 1953, John Portman and Associates had more than 65 years of experience in designing mixed-use urban developments, hotels, office buildings, multi-unit residential complexes, and exhibition centers. The Park Hyatt in Hyderabad came up on three acres of land in upscale Banjara Hills in the heart of Hyderabad city. It impressed guests from around the world with an atmosphere of easy elegance, five-star facilities and amenities and discreet service.

Contd….

> This modern eight-storey hotel which was designed to international standards, took three and half years to construct, and caters to the discerning individual seeking the privacy, personalized service and luxurious elegance of a contemporary hotel.

Source: Balani, J. (June 17, 2020). Park Hyatt Hyderabad. Retrieved from https://www.upscalelivingmag.com/park-hyatt-hyderabad/. Accessed on 1-6-2022.

21.6.4 Referral Markets

Referrals are a very important source of business development, especially for service organizations. Existing customers, intermediaries, consultants, etc., constitute the referral market for service businesses. For example, insurance organizations sell their products and services through intermediaries such as individual agents and agencies. They also enter into a partnership with banks to sell their products and services across the bank counters. Therefore, it becomes very important for these organizations to maintain good relations with these intermediaries and influence them positively to serve the customers better.

Amicable relations with intermediaries help organizations win their trust and confidence. Intermediaries would then actively advocate the services of the organization to prospective customers. In case of specific services like retailing and hospitality, employees of the firms and existing customers can bring additional business by recommending the organization's service to their friends and relatives. In case of some services like carpeting, interior designing, etc., builders can act as an active source of referrals. Sometimes, peers or counterparts in the same field of service can also be a source of referrals. For example, a general physician might refer a patient to a specialist, depending on the ailment and the diagnosis.

Organizations can reward referrals suitably to motivate them so that they continue to recommend their services to customers. Amazon.com, a leading online retailer, encourages referrals by giving them a percentage of the profits earned.

21.6.5 Recruitment Markets

Every year in India, thousands of students from prestigious educational institutes like the IIMs, IITs, NITs (National Institute of Technology) and other colleges are sought after by companies from different sectors of business. Organizations have to make special efforts to attract these talented, young and energetic students who are extremely choosy and careful in taking their first career step. Organizations have to maintain continuous contacts with the heads of educational institutes, professors and placement officers. They can sponsor student events on the campus and conduct workshops, seminars, etc., to attract students. These steps will help organizations understand the changes in the education system, students'

opinions and preferences on education, career, etc. Organizations can then promise the right compensation, benefits, work environment and autonomy to attract students and prospective employees from the job markets.

Apart from the fresh graduates from the colleges and institutes, prospective employees working with other organizations form a major chunk of the recruitment market for any organization. These employees bring in their rich experience and knowledge from their earlier jobs. Organizations can attract these experienced employees by conducting workshops and seminars and through the word-of-mouth publicity provided by their own employees. Organizations also have to maintain good relations with placement agencies and head hunters so that they can impress prospective employees with the organization's positive aspects. This will enable organizations to have a wider choice and select the best candidates for vacant positions.

21.6.6 Influence Markets

Influencers include shareholders, financiers, consumer protection groups, environmentalists, government, media, trade unions, and the general public. Failure to maintain good relations with any of these influential groups can have a negative impact on the reputation of an organization and can sometimes even affect its performance. Therefore, organizations try to maintain good relationships with these groups to enhance their image and also serve organizational interests.

Check Your Progress - 1

1. Which of the following is defined as an integrated and coordinated effort to identify, maintain, and build up a network with individual consumers and employees, for mutual benefits through interactive, individualized, and value-added contacts?

    a. Internal marketing

    b. Services marketing

    c. Relationship marketing

    d. Transactional marketing

    e. External marketing

2. Identify the statements that is not valid with regard to the benefits of relationship marketing to organizations and to customers.

    a. Organizations will benefit from increased revenues from its existing customers

    b. Organizations can benefit from satisfied customers who are likely to patronize the company's services

    c. Customers can save on time as well as the effort required to choose a new service provider

    d. Customers may enjoy highly personalized services and even special services as the service provider already knows their requirement

    e. Providing value to an existing customer, to enable repeat sales and also get new customers also subscribe to the service

3. Which is the method of marketing in which a service organization or its employees communicate with the customer only when he/she approaches it for service?

    a. Internal marketing

    b. Relationship marketing

    c. Transactional marketing

    d. External marketing

    e. Integrated marketing

4. Identify the statement that does not hold true with regard to relationship marketing and transactional marketing.

    a. In transactional marketing, the employees of the organization attempt to sell their service considering it to be a one-time process

    b. In relationship marketing, a service organization establishes and maintains a long-term relationship with its customers

    c. In transactional marketing, a service representative of the organization provides only the service sought by the customer, and does not get interested in gaining the loyalty of the customer

    d. In relationship marketing, the service organization does not make any effort to get to know whether the customer is satisfied with the service, whether he/she needs some other service, or would like to come back again for the service

    e. Customer-satisfaction may be high, when relationship marketing as against transactional marketing, is practised

5. Which markets include shareholders, financiers, consumer protection groups, environmentalists, government, media, trade unions, and the general public?

    a. Referral

    b. Supplier

    c. Internal

    d. Influence

    e. External

Activity 21.1

Food Fest is a local restaurant chain with three branches in Hyderabad city. It plans to launch a new three-star hotel in the city and adopt relationship marketing as a strategy to make the venture into the hospitality industry successful. Which of the groups in the marketing environment should Food Fest establish good relations with, to make its relationship marketing strategy successful?

Answer:

21.7   Strategy in Relationship Marketing

Service organizations that believe in the concept of relationship marketing formulate their strategies in a different way when compared to traditional organizations that believe in transaction marketing. The former's strategies are centered around building and developing long-term relations with customers while the latter's strategies focus on attracting customers for immediate business gains. Organizations formulate relationship marketing strategies in a systematic manner, though the manner is not quite different from the traditional process. The sequence in which these organizations formulate their strategy is discussed below:

21.7.1 Mission and Vision

The first step in strategy formulation is determining the mission of the organization. The mission of an organization provides the direction for its progress and guides its future plans and strategies. In the absence of a mission statement, the members of an organization may not understand the purpose of the organization, and so may work in different directions and fail to achieve the organization's goals. The mission statement should clearly state the reason for the existence of the firm, its values and its long-term goals.

The mission statement should be short and simple so that employees at even the lowest level can easily understand and assimilate it. The statement at the same time should be compelling and inspiring. A vision statement explains the objectives of the organization and the position envisaged by it. The mission and vision statements of a service organization should invariably emphasize focus on the customer and commitment to quality customer service.

Example: Mission and Vision Strategies of Tata Group

Tata Group was an Indian multinational conglomerate headquartered in Mumbai. Tata Steel Group was the world's second-most geographically-diversified steel producer with its operations expanding to 26 countries along with a commercial presence in more than 50 countries. The vision and mission statements of Tata Steel:

Vision - Tata Steel Group aims to set a benchmark in the global steel industry for Value Creation and Corporate Citizenship.

Mission - True to the vision of the founder of Tata Steel, Jamsetji Nusserwanji Tata – the company strives to strengthen the country's industrial base through maximum utilization of manpower and raw materials. It seeks to fulfill this goal with modern management practices that combine the best that technology has to offer along with high productivity.

While honesty and integrity are at the core of a strong and stable enterprise, Tata Steel knows the fact that profitability provides the main spark for an economic activity that drives the nation. On a whole, the company aims to scale the heights of excellence in everything it does in an environment free of fear while reaffirming its faith in the company's democratic values.

Source: (May 21, 2021). Retrieved from https://www.tatasteelsmartfab.com/about-us/vision-mission-and-values. Accessed on 27-06-2022.

21.7.2 SWOT Analysis

In this step, organizations examine their internal environment to analyze their own strengths and weaknesses and the external environment to identify the opportunities for and threats to the business. SWOT analysis helps the management determine how the organization can develop capabilities and leverage on strengths to utilize the market opportunities and overcome the threats posed by the external environment. The management can evaluate organizational strengths by analyzing its financial and other resources, its competitive advantage over competitors and reputation among customers and shareholders. If the management observes weaknesses like poor cash flows, thin margins, complaints on service quality or decline in repeat customers, it needs to take immediate steps to improve the performance of the organization. The management should attempt to find out if there is any opportunity in terms of new technology, range of services, quality of services or new markets. The management also has to monitor the external environment to identify threats like the entry of new players into the market, stagnation of market growth, unfavorable changes in government policies, changes in the international markets, etc.

21.7.3 Strategy Formulation

The management should formulate strategies to match the results of its SWOT analysis. It should formulate strategies to minimize the impact of weaknesses on the performance of the organization and eliminate the effect of external threats. The strategy should leverage on the organization's strengths and exploit the market opportunities for maximum benefits. The management should also make a thorough SWOT analysis of all the six markets (Customer market, internal market, referral market, supplier market, recruitment market and influence market) discussed in the previous section) and develop strategies accordingly. This should be done in accordance with the SWOT analysis of the organization. For example, an organization realizes during its SWOT analysis of the customer market that its communication, and therefore, its relationship with the market is weak. While evaluating the opportunities of the external environment, if it recognizes Internet technology as an opportunity, it can use it to improve its communication with its customers.

21.7.4 Quality and Relationship Marketing

Quality needs to be given the topmost priority by service providers because any deterioration in the quality standards can reduce their credibility and affect the customers' perception of the firm. If the service provider fails to meet the expected quality standards, the customer might not turn up again to avail of its services. Thus, an organization can lose a customer forever, even before it can develop a relationship with him. Therefore, the service provider has to implement Total Quality Management (TQM) and ensure that customers obtain consistently high quality service. Quality control and management systems like TQM should become an integral part of the service delivery process of an organization. Employees at all levels should be trained in various quality management techniques like Kaizen (activities that improve all functions), Kanban (scheduling system for lean of just-in-time manufacturing) and customer needs mapping, to ensure high standards of service.

Quality related problems tend to be high when an organization introduces new services. These are teething problems and they tend to subside once the service stabilizes. For example, Reliance Infocomm faced a lot of teething problems when it first launched its service on a large scale across the country. While the company was able to compete with competitors on price, the company's quality of service[5] was viewed as a problem area. However, the operational problems s and quality issues reduced and as time progressed the service stabilized. A decade after launch RComm[6] became a debt-ridden company due to several reasons and

---

[5] http://tele.net.in/index.php?option=com_k2&view=item&id=3651

[6] https://www.businesstoday.in/magazine/features/anil-ambani-reliance-communications-debt-weakest-telecom-company-airtel-spectrum-revival/story/262135.html

finally filed for bankruptcy on February 2019. However, as of March 2019, the company has reworked its debts and continues to operate fixed line communications and data center services.

Activity 21.2

An internet–based news and entertainment company from Chennai. The company began to use social media to its advantage by allowing users to follow specific groups, pages, and themes. Its website allows users to post their own content, which includes personalized articles, quizzes, etc. that they want to share with people of similar interests. As a consequence of these measures, the company's global audience started increasing. Suggest three other ways that the company could adopt to maintain better relationship with audience to retain them and acquire new viewers/readers as well.

Answer:

| |
| |
| |
| |

21.8   Impact of Service Failures

Consider the case of a restaurant that delivers food that is cold or a milkshake that is luke warm to a customer who can be classified as a patron and a loyal customer. If the customer had brought along important guests along with him for dinner, the service failure could prove fatal to the company. Though such mistakes often occur in restaurants, the impact of such a failure depends on how the service provider manages the service failure. Employees need to be trained to apologize for service failures and take necessary steps to address the failure. In the given example the service staff who served food needs to apologize and also promise a reheated meal in 10 to 20 minutes and ensure that the same is delivered.

Consumer Response to service failures

In order to effectively control the damage caused, it is important to understand what consumers do when they experience service failure. Consumers have the following options when they experience service failure:

1. **Take some public action:** Public action would include complaining to the firm or to the press or to consumer rights forum or even initiate criminal action by filing a case against the service company seeking compensation for service failure. In April 2019, Air India's internet server 'SITA' failed[7] and

---

[7] https://www.indiatoday.in/india/story/yeh-nahi-sudhrenge-users-tweet-as-air-india-server-failure-thousands-stranded-airports-1511330-2019-04-27

Air India flights all over India were affected because of this server failure. Over thousands of Air India passengers were stranded at airports. The problem of passengers was compounded because Air India failed to communicate with passengers and provide information as to when services would resume. Frustrated by the repeated service failures, Air India passengers tweeted 'Yeh nahi sudharenge' (Air India will never improve).

2. **Take some private action:** Here, the consumer may be angry and hence decide to defect and share the negative experiences to friends and acquaintances (negative word of mouth).

3. **Take no action but defect:** A consumer may take any one of the actions specified above or a combination. In a majority of the cases, while consumers may not formally lodge a complaint, what they would definitely do is defect and also share their negative experiences with friends and with all acquaintances. Sharing of negative experiences in the social media has also become common. Negative information spreads very fast when it goes viral. Students can understand the magnitude of loss of revenue to the company under such circumstances.

It is equally important for service organizations to understand why consumers complain. Consumers complain due to the following reasons:

- When consumers are frustrated due to poor service, they wish to give vent to their anger. When the behavior of service staff is also intimidating and rude it causes damage to their self-esteem.

- Consumers may want to complain to give suggestions for improvements. Such suggestions can be valuable.

- When consumers suffer loss because of service failure, they may complain to claim compensation.

- Certain consumers who feel socially responsible may feel duty bound to report and bring to notice failures, to caution other customers or to initiate corrective action.

A majority of the customers do not complain but just defect. Still others defect and spread their negative experiences. A service company must be thankful if consumers complain and must provide avenues for customer complaints and also create systems to address complaints. Customers avoid complaining because they do not hope to get any response. Sometimes they feel the effort to complain is really not worth the service.

The procedure to complain must be kept very simple and must be made accessible. The speedy action initiated in this regard would limit the damage and also restore mutual trust and faith. When a customer complains of service failure,

he expects that the reasons for lapses need to be explained. Service personnel who address the complaint have to be courteous and must make an honest attempt to solve the problem. The consumer must also be compensated for losses incurred due to service failure.

21.8.1 Reasons for Service Failure

A breakdown in the delivery of service is defined as service failure. When a service company fails to meet customer expectations in terms of service quality or fails to deliver the benefits promised, the customer may consider switching to another service provider. Service failure can prove to be disastrous for the company particularly if it occurs on a regular basis and if the severity of the failure is serious. Hence, it is important for a company to understand the root cause of failure. Classifying service failure could help resolve the problem.

Research in this area (Bitner, Booms and Tetrault, 1990) has suggested that service failures could fall under the following categories:

1. **Service delivery system failure:** Here, the failure occurs in the core offerings of the firm. The service company sometimes fails to understand the expectations of the customers. In September 2019[8], the Reserve Bank of India (RBI) announced that major irregularities in the operations of Punjab and Maharashtra Co-operative Bank (PMC bank) were noticed and hence ordered the bank not to do any business until further notice. Further, RBI capped depositor withdrawals at ₹ 1,000 for a period of 6 months. This amount was subsequently increased to ₹ 10,000 and later to ₹ 40,000. This order by the RBI has thrown the lives of many individual depositors, small traders, wage earners and self-employed persons into disarray. The bank's top management, allegedly responsible for financial irregularities and wrong doings have failed the depositors. The PMC bank crises is a case of service failure that has occurred on account of failure of service delivery system.

2. **Failure to respond to customer needs:** A service company that claims 24 hour service may fail to respond when a customer calls in the night.

3. **Unprompted and unsolicited employee actions:** A customer may be caught unawares by an employee who is very rude and uses very abusive language. Few incidents faced by passengers travelling by Uber and Ola have created a perception that cab aggregators have not done much to ensure safety of women. Problematic customer behavior: Consumers may have very high expectations which may be unreasonable and hence the attitude of the consumer may lead to service failure.

---

[8] https://economictimes.indiatimes.com/industry/banking/finance/banking/rbi-bars-punjab-maharashtra-co-op-bank-from-business-transactions/articleshow/71271849.cms

The categorization of causes for failure could vary depending on the service industry. For instance, in retail industry, service failure could be categorized under the following headings: out of stock, misleading information, improper charges, problems in fulfilling sales promotion promises, etc. In the case of airlines, the service failure could be in areas such as the check-in check out procedures, punctuality, snags in airplanes because of poor maintenance and bad employee behavior.

Example: Gasp Unprompted and Unsolicited Employee Action

Gasp, a now-defunct Australian fashion company, was once embroiled in an infamous email scandal when their area manager defended a shop assistant who insulted a customer. Instead of backing down from the intense public scrutiny, the manager went on to brag that the publicity was bringing a boom to their business.

But people questioned this claim, especially since Gasp's operations manager apologized on national television three months after the incident (and two weeks after the branch went out of business).

Source: Lazarchuk, D. (January 13, 2022). Bad Customer Service: A Success Or Failure Of Strategic Business Thinking? Retrieved from https://www.forbes .com/sites/forbestechcouncil /2022/01/13/bad-customer-service-a-success-or-failure-of-strategic-business-thinking/?sh=5c40cf7323c3, Accessed on 1-6-2022.

21.8.2 Service Recovery Paradox

This refers to a situation where a very positive service recovery effort exceeds the expectations of the customer and the same customer turns more loyal than what he was before. Service recovery paradox was defined by Michael McCollough and Sundar Bharadwaj (1992) as, "a situation in which a consumer has experienced a problem which has been resolved to his or her satisfaction, and where the consumer subsequently rates his satisfaction to be equal to or greater than that in which no problem had occurred".

It is evident to all that only under very high level of customer service such a paradox can occur. While service paradox can give an opportunity to a service firm to delight the customer and exceed his expectations, such occurrences are rare and would prove to be very expensive for the firm. A service firm would do well to understand that it is always better to do things right the first time itself and ensure that service failures are avoided at any cost. Moreover, the service recovery paradox may hold true only if service failure is rare and not where it does not become a regular phenomenon.

21.8.3 Service Guarantees

A service guarantee is used by service marketing firms to reduce consumer risk perceptions, differentiate service offerings and signal the confidence that the firm has on the quality of its service. Service guarantee is also an in-built system to

deal with service failure. Consumers would definitely complain and thus the service firm can ensure that post service failure, consumer's dissatisfaction with the service can be addressed. Firms that offer service guarantees, very clearly specify the conditions and the circumstances under which compensation claims can be made.

According to Christopher Hart, service guarantees promote and establish quality in the following ways:

- Firms need to focus on customer expectations and customer satisfaction before designing service guarantee schemes. Thus, service guarantee is much more than an additional service offering. It forces the firm to focus on quality as perceived by consumers.

- Guarantees establish unambiguous benchmarks for the employees to follow. It also gives an opportunity for the firm to enhance corporate image by showcasing its quality standards.

- Top managers need to focus on quality because service failure on the part of the firm could lead to payment of compensation. Frequent service failures also result in negative publicity.

- Service guarantee is much more than a scheme that compensates for failure in service. It is an effective system that generates consumer complaints and feedback. It also ensures that necessary action is taken.

- Service guarantee also forces firms to analyze the reasons for failure. Thus, service gaps are identified.

- From the consumers' perspective, the risk with purchasing an intangible service is reduced. For the firm, this can lead to sales revenue from two sources. First time clients would confidently opt for the firm's service and existing clients would continue to patronize the firm.

To sum up, service guarantee schemes help customers by reducing purchase risk and providing avenues to complain and claim compensation when there is service failure. The firm benefits by focusing on quality, receiving valuable feedback from the customer and increasing its sales revenue.

21.8.4 Impact of Service Failures versus Product Failures

Whether it is failure of a product or service, when the news of customer dissatisfaction spreads amongst customers, it tarnishes the brand reputation. It may take a few years for the brand to build back the reputation loss. In the case of high involvement, products like cars, news reporting service failures can tarnish the brand image of the company. In June 2019[9], Ford announced that it would be recalling certain 2011-17 Explorer vehicles. The recall is being done

---

[9] https://www.msn.com/en-us/autos/news/latest-automotive-safety-recalls/ss-BBmhBgh

because there is a high possibility of rare suspension link fracturing due to stress on rare suspension. Companies make product recalls to avert the negative fallout of a major negative publicity. In the case of a product failure where safety hazards are high as in the case of automobiles or mobiles phones catching fire, etc., the negative fallout of product failure is very high.

As in the case of products, customers expect to be compensated for service failure. Typically, the compensation may be in the form of owning up responsibility, apologies, refunds, credit transfer, discounts, etc. Whether or not the service recovery attempts are successful, they all depend on customer expectations and their perceptions of the brand and the organization. The severity of customer failure and the strength of customer relationships are also other factors that impact the result of the service recovery efforts.

21.8.5 Nature of Complaining Behavior- Complaint Resolution Process

When there is a service failure, customer complaints pour in and the service organization is also subject to a lot of criticism. Dissatisfactory or not so favourable service experience is the primary cause of customer complaints. It is, therefore, imperative for the service provider to understand the various shortcomings or service gaps that lead to customer complaints. Notwithstanding the efforts of the service provider to offer consistent and high-quality service, service failure occurs, and complaints are also received. A service organization therefore needs to have a fool-proof complaints resolution process.

A complaint resolution process spells out the various procedures to log, investigate and amicably resolve any issues relating to customer dissatisfaction. Service recovery is the primary objective of this process. From employee's perspective, receiving complaints may not be something pleasant. However, it needs to be understood that complaints are also a valuable source of information regarding customer perceptions, requirements and viewpoints. Therefore, there is a need to systematically log and index the complaints and systematically address them.

The following points may be kept in mind while resolving complaints:

- Response time is critical. Hence, it is important to respond within a reasonable time-frame. The number of days or hours before which complaints must be resolved and also stipulated.

- As a rule, it is important to assume responsibility, when service gaps are found. Attempts to dismiss the complaint as trivial or blaming the customer must be avoided.

- Listening to the customer is important as service recovery is always successful when customers feel the organization is empathetic and willing to listen. Also, it is important to ask questions and ascertain whether the complaint is understood in the correct way.

- Prompt response is required. In case the company is unable to fix the problem, the company needs to refer the customer to someone who can help the customer.

- The tools of quality management should be used to understand the severity of service failure and the nature of complaint. Since complaints are often handled by front line employees, they must be given training on these aspects of complaint handling.

- The customer can be given more than two alternative solutions to the problem, so that he has the freedom to choose the best alternative that suits him or her.

- There must be a clear time-frame for implementation of the solution.

- Thanking the customer for the feedback and the time and effort to raise the complaint is equally important.

- Follow-up is required to ensure that there is continued customer satisfaction.

- Sharing of stories by employees on aspects like what worked or what did not work on complaint management enables development of new skills. Sharing of such information also provides greater insights on contingencies and the possible ways of resolving contingencies.

In most of the cases, customers leave the company when even after complaining, there is no response.

21.9   Recovery of Customers

Sometimes, despite having the best infrastructure, the most advanced technology and thoroughly professional employees, organizations may fail to provide quality service to customers. In some cases, dissatisfied customers simply switch to competitors without any complaints. Some of them, however, voice their complaints to the company. By doing so, they do a world of good for the company, as it comes to know of its weaknesses and problems. There are some dissatisfied customers who might or might not voice their complaints. These dissatisfied customers may share their bad experiences with their friends, colleagues and relatives which may lead to negative publicity. This will have a negative impact on the business of the organization and hinder its efforts to attract new customers. Service organizations should have a proper service recovery system in place to pacify dissatisfied and disgruntled customers.

According to Tax and Brown, "Service recovery is a process that identifies service failures, effectively resolves customer problems, classifies their root cause(s), and yields data that can be integrated with other measures of performance to assess and improve the service system." By adopting a service recovery system, service organizations get a second chance to rectify any mistake that occurred during the delivery of service in the first instance. If the problem is

resolved and the customer is satisfied, he may give up his attempts to switch to competitors. If the company continues to provide high quality service, it might succeed in earning a loyal customer. This loyal customer could tell his friends and relatives how the organization attended to his concerns and solved his problems. This will help develop a positive image about the company among prospective customers and serve as word-of-mouth publicity for the business.

The following guidelines should be adhered to by the management while developing a service recovery system:

21.9.1 Track and Anticipate Recovery Opportunities

Organizations should attempt to know if any customer of theirs is dissatisfied with their service or any other aspect of the organization. Periodic customer surveys and regular customer interaction can help the organization identify any failures on their part. There may be some customers who are dissatisfied with poor quality service but do not complain to the firm or voice their problems openly. Such customers may reduce their business interactions with the organization and may eventually discontinue utilizing the services of the organization. Organizations can track such customers with the help of technology and attempt to communicate with them. For example, a private IT company which regularly utilizes the services of a particular airline for the business travel of its employees, starts to utilize the services of another airline, at the behest of its employees. If the first airline has a proper database management system, it will be able to notice that the business from a corporate account has been declining and can take the necessary steps to revive the account.

Companies should encourage their customers to complain to them in case they face any problem in the quality or delivery of service. The complaint submitting process should be simple and swift and should be widely publicized so as to increase the awareness of customers.

The management should continuously analyze the complexities involved in the service process, and identify the areas where there is a possibility of failure or delay. This proactive approach can help the management prevent some of the customer-related problems. It should develop effective mechanisms to deal with any problems that may still arise, and solve them immediately to the customer's satisfaction. Caterpillar uses advanced technology to monitor the functioning of the equipment hired and used by customers. In case any mal-functioning of equipment is detected, service personnel are deputed proactively to repair the equipment.

21.9.2 Solve Problems Quickly

One of the main reasons for customers shying away from conveying their problems to the company is that they feel that it will be of no use. They might have formed this opinion based on past experience or on hearing it from friends.

Some customers, however, communicate their grievances to the company, expecting a prompt corrective action. When the company fails to meet the customer's expectations and fails to sort out the issue, he loses confidence in the company and its services.

The management should recognize that the customers who complain have given a second opportunity to the organization to rectify its mistake. If it fails to deliver even after being given a second chance, the customers will, perhaps, be lost forever. The management should motivate its employees to utilize the opportunity to rectify their mistake and offer superior quality. They should be made to realize that they can convert dissatisfied customers into satisfied and loyal customers again by exceeding their service expectations. The complaints lodged by customers should be attended to immediately and the problems resolved to their satisfaction. The employees of the company should be made to understand the implications of bad service both in terms of losing an existing customer as well as bad publicity for the company by the dissatisfied customer. The longer the company takes to resolve a customer complaint, the greater will be the damage. Moreover, the slow recovery process reduces the chances of retaining a customer dissatisfied with its service.

Example: Spectrum Learnt the Lesson to Solve Problems Quickly the Hard Way

Spectrum was an internet provider that catered to both businesses and individual subscribers. It discovered a customer success silo when one customer called to schedule a maintenance visit to set up her internet.

After the maintenance employee failed to show up at the scheduled time, the customer called the support team to make sure the appointment had not been canceled. The support team assured her that the employee was on his way and would be there soon. Two hours later, the maintenance worker arrived, then left after finding the main entrance to the building locked.

So, the customer called the support team again only to find that the next available appointment time wasn't for another 15 days. And, to make matters worse, Spectrum was still going to charge the customer even though she didn't have her internet working. Eventually, this led the customer cancel her subscription and buy from another competitor.

If Spectrum had aligned its customer support and maintenance teams, it could have avoided this instance of customer churn. Service reps could have alerted the maintenance worker about the customer's complaint, and maintenance could have updated the service team that they were unable to get into the building.

Source: Dimitriou, N. (March 25, 2020). 8 Customer Experience Fails that Companies Can Learn From. Retrieved from https://blog.hubspot.com/service/customer-experience-fails. Accessed on 1-6-2022.

21.9.3 Train and Empower Front Line Employees

Organizations should educate employees about the need to serve customers and enable customer satisfaction. Staff) should be trained adequately to offer error-free services consistently. And, they should also be trained to deal with those precarious situations when their efforts to offer quality service to customers fail. Ford, for example, gives extensive training to employees in service recovery skills.

Employees should be able to notice any problems or mistakes that occur in the service process at the earliest, alert the people concerned about it, and initiate the service recovery process. If the customers blame them for delays or flaws in service, they should not take it personally and get annoyed, but accept their responsibility for the inconvenience caused. They should assure the customers that the mistake will be rectified and any losses incurred by them will be compensated.

In some cases, employees fail to deliver the results in spite of their best efforts, due to organizational bureaucracy. Companies should empower their employees to take the necessary decisions which can solve customers' problems. This will speed up the process of service recovery, apart from improving the quality of service delivery. In cases where customers need to be compensated, employees may be given the freedom to determine the range of compensation to be given to the customer depending on the monetary losses and the mental agony experienced by him as a result of poor quality service. Some broad policies may be framed by the management to guide them in decision making.

21.9.4 Service Recovery and Severity of Service Failure

Organizations thrive to make their services error free or failure proof, however every organization has to deal with situations of service failure where something goes wrong. Since many services are produced in the presence and sometimes with the help of the customers, errors in a service firm are inevitable. In such a situation, the organization tries to win back the trust of the dissatisfied customer by providing a service recovery. Service firms must understand that service recovery should be provided according to the severity of service failure. Every service failure may not be perceived by the customer in the same degree of seriousness, some service failure situation may be far more severe in the eyes of the customer as compared to minor errors in the service process.

For example, in the case of food delivery an order delivered late might be seen as a small service failure as compared to a delivery of a wrong order. Another example is in the case of online banking services a slight delay in money transfer may be perceived as less severe as compared to a customer not able to send or receive money. Service firms must have procedures and policies which aid service recovery processes by helping the managers to understand the severity of service failure. If the manager feels that the error or failure is severe and harms

the customer in any way, the recovery for such incident should be handled very carefully by the firm. According to service failure severity, the service recovery should be planned and delivered. Firms should understand that a good recovery can turn an angry customer into a loyal customer and help in customer retention.

Service Recovery Strategies

Service recovery should be seen as an opportunity to create loyal customers, evaluate processes and make the service fail-proof. Apart from being very sympathetic towards the customer who is very dissatisfied due to a service failure, a few of the following strategies can be used by managers to reduce customer dissatisfaction. The strategies provided below may be used in isolation or a combination of one or more strategies in extreme situations to win back the customer.

Apology: One of the simplest strategies to reduce customer dissatisfaction is to provide a customer with an apology for the service failure. Many customers do not want to waste time in escalating simple problems they encounter, in such a case a simple apology from a front line employee or a manager may be sufficient to reduce customer dissatisfaction. The customer in such situations just wants a little acknowledgement from the service firm that he or she had a problem and an apology is very effective and low cost option which firms can use. The employees have to be good at owning the responsibility of the mistakes which harmed the customers' service experience.

Reasoning: Sometimes the customer wants to know why the service failure happened or who is to be blamed for the failure, in such a situation an employee of the firm dealing with the customer has to provide a detailed explanation about the failure situation. In situations where failure happens due to any equipment or a component of the physical evidence, an explanation about the situation may be enough for the firm to win back the customers' trust.

Compensation: Many times an apology or an explanation may not be sufficient to reduce customer dissatisfaction, so companies have to provide some compensation to the dissatisfied or angry customer. Compensation can be monetary or non-monetary which means it could be cash or rewards like free miles on a flight etc. Firms have to decide on how much to compensate the customer, compensation can be seen as enough or can be perceived as too little by the customer.

In extreme service failure situations where not only the affected customer but the service firm may lose business from other customers as well, a combination of apology, explanation and compensation can be used. Angry, disgruntled, or demanding customers may be handled by managers in a better manner if they are given discretion on using a combination of above mentioned strategies. For example, in many top hotels across the globe, front line employees dealing

44

with customers are given monetary budgets which they can use as service recovery without taking any approvals or permissions from top managers. If managers are able to handle service failure with only combinations of apology and reasoning, they save a lot of resources of the company.

Providing Effective Service Recovery: Justice Theory

Customers try to derive a sense of fairness after going through the experience of service failure and recovery. Customer may see a situation of failure followed by recovery as fair or unfair. Justice theory suggests that the customer does this using three dimensions of perceived justice, interactional, procedural and distributive.

Interactional Justice: When service recovery is provided, a customer may observe the way an employee interacts, is the employee listening carefully to the problems, efforts by the employee, courtesy and empathy shown by the employee etc. So a customer sees whether the interaction was fair to the customer or not. For this to be done right the employees have to be highly trained to handle angry irritated customers which is a tough task.

Procedural Justice: Customer also observes the procedure followed by the employee and the company during the service recovery. When something goes wrong what should the customer do, whom or where should the customer complain, or how fast or responsive was the procedure. The policies to handle customer issues may be seen as the procedure for the customer to follow. The customer may assess the ease of complaining or promptness of recovery mechanism and perceive a situation as fair or unfair.

Distributive Justice: Customer here looks at the outcome of service recovery. If the consumer feels that the outcome of the recovery is fair, then the customer is satisfied with the recovery. The outcome can be an apology, or a compensation but the customer has to feel that the outcome is fair in relation to the trouble that was caused by the service failure.

21.10 Retention Strategies

A service organization attempts to retain customers by providing quality service consistently, thereby winning over the customer. Another important aspect of service marketing is providing personalized attention and customized service to the customer.

Most of the strategies that are formulated for relationship marketing are based on these simple principles. Some of the strategies adopted by service organizations are discussed below.

21.10.1 Four Level Retention Strategy

Leonard Berry and A. Parasuraman believed that customer retention strategies can be formulated at various levels and the level of strategy adopted by the firm will determine the strength of customer relationship and thereby, the competitive

advantage to the firm. The authors suggested different levels of strategies, which have evolved into four different levels – establishing financial bonds, social bonds, customization bonds and structural bonds with customers.

Financial bonds

Organizations employ various measures to attract and retain customers. Some organizations attempt to retain customers by offering them financial incentives. Customers, attracted by these incentives tend to continue the relationship with the organization. Airlines for example, offer frequent flier programs for regular customers. Members of this program can redeem the mileage points earned through their flights for free travel, hotel stay, gift vouchers, etc.

Another way of offering a financial incentive is by offering services at lower prices or discounts to existing customers. For example, the Housing Development Finance Corporation Limited (HDFC) offers new loans at low interest rates to its existing customers, when compared to those for new customers. An IT services vendor might decide to continue the old billing rate (in spite of introducing a new billing rate) for its long-time customer till the end of the financial year or till the current project ends.

Social bonds

Social bonds can play a very important role in retaining customers when there is no other factor that encourages or prevents them from switching to competitors. Spotify, a media service provider (audio streaming platform), has a dedicated marketing sciences department that designs the desired listening preferences for customers based on customer data on user preferences and listening habits. Based on insights obtained from customer data, Spotify has created communities[10] of people with similar musical tastes such as: 'Girls Night Out' playlist (liked by 1,257 guys), 'It's The End of The World As We Know It', the day of Brexit vote, etc.

Companies can thus enhance customer retention when they build such social bonds like how Spotify has built with customers. They can improve their performance further when they combine social bonds with finance bonds. Social bonds normally exist between customers and their doctors, lawyers, investment advisors, etc.

Customization bonds

Some organizations attempt to develop a special relationship with customers by customizing their services to suit the specific needs and preferences of each customer. In today's world, when individual customers have different needs and

---

[10] https://www.customercontactweekdigital.com/customer-engagement/articles/4-brands-that-practically-invented-customer-centric-advertising

preferences, it has become imperative for organizations to offer customization. Companies which ignore this and offer mass products and services tend to lag behind in the race. However, price and quality aspects cannot be ignored by service providers.

Structural bonds

Structural bonds are formed with customers when organizations offer value-added services which are not offered by competitors to them and the customers themselves cannot acquire the infrastructure needed to avail of such services. These services do not depend on the service personnel but on technology. This indicates that customers become dependent on the organization's structure rather than on the employees. The name "structural bonds," is derived from this nature of relationship. Once the structural bonds are formed, the customer will not attempt to switch to a competitor even if it lowers prices because it is not able to offer the kind of technical support he requires and the benefits he derives from the service he has. Organizations achieve structural bonds generally by integrating their information systems with that of customers, making joint investments in technology or by sharing some equipment and processes.

Example: Tanishq's Golden Harvest Scheme

Tanishq was an Indian-based jewellery manufacturing company. A subsidiary of the Tata Sons group, Tanishq was set up under the Titan brand as an edgy and contemporary jewellery brand. The company's unique style and product range contributed to its appeal across the country.

Tanishq Golden Harvest Scheme - Tanishq was constantly aiming for excellence in its product quality and delivery and optimising the customer experience.

As part of this, it launched the Tanishq Golden Harvest, which was a jewellery purchase scheme that allows individuals to deposit a sum of money every month, which can be used to make a jewellery purchase at a subsidized rate.

This scheme allowed individuals to set aside money for a purchase at a later date and also avail of a discount on the purchase. Tanishq had a 10 month as well as a 6 month scheme, allowing individuals to select one based on their needs.

Source: Kaur, A. (January 2, 2021). Retrieved from https://www.livemint.com/money/personal-finance/tanishq-golden-harvest-a-monthly-gold-savings-plan-all-you-want-to-know-11609565418352.html. Accessed on 1-6-2022.

21.10.2 Monitor Relationships

Apart from adopting the retention strategies discussed above, organizations need to continually evaluate their relationships with their customers for enhancement.

This is crucial because a customer may switch to a competitor's service any time he feels the absence or weakening of the relationship. Therefore, organizations need to not only maintain the relationship, but also work on improving it from time to time. Customers' needs and preferences may change with time and if the service provider does not respond to them swiftly, the competitors may grab the opportunity and thus the customer.

Companies can use Customer Relationship Management (CRM) applications to capture customer data and study their behavior, needs, and interests. When the database is managed effectively, they can detect any change in the customer's spending patterns and his loyalty to brands in real-time. Credit card companies and direct marketing organizations collect a wide-range of customer data. Service organizations can enter into partnerships with these organizations that collect customer data to understand their customers better, come up with customized service offerings and strengthen their customer relationships. In India, insurance firms like ICICI Prudential and Aviva Life are employing CRM applications to obtain details about customers, understand their behavior, needs and preferences, and up-sell various products and services to them.

21.10.3 Value Addition to the Service

In today's world, where customer expectations are quite high, companies worldwide strive to add value to the services they offer to their customers. An organization can be said to have succeeded in providing good service if the customer feels that his service experience is enriched every time he avails of its services. A satisfied customer will avail of services more frequently and generate more revenue for the service provider.

21.10.4 Increased Customer Contact

Organizations should keep the communication channels with their customers always active, to enhance the relationship. The two-way communication helps in understanding customer requirements better and in ensuring customer satisfaction.

21.10.5 Enhanced Customer Service

For every service industry, there exist some key dimensions along which customers attempt to evaluate the quality of service. Some of these dimensions may be more crucial than others in the overall evaluation of a service firm, depending on the industry. For example, the taste and choice of food, the ambience and hygiene are of primary importance in the hotel industry, whereas promptness in service and service personnel become the secondary components of service. For airlines, the flight departure and arrival timings, time taken for check-in and check-out and facilities offered in flight are of primary importance. The quality of food is only a secondary service component. By improving the

quality of secondary components of service along with that of the primary components, an organization can enhance the overall quality of its customer service.

For example, Saudi Arabian Airlines and Singapore Airlines offer their passengers a wide range of dishes, wines, and beverages to choose from. A service organization needs to know how it is being perceived by customers along the required dimensions and especially along the primary dimensions to work towards improvement of service standards. The organization should effectively use this knowledge to constantly improve its customer service and thus, ensures enhanced customer satisfaction.

Activity 21.3

OSS Couriers, an established player in the corporate overnight courier delivery service, witnessed continuous growth rate since its inception. OSS Couriers has many firsts to its name – having its own fleet, use of IT and providing varied services. However, in the past three years, OSS's customer base and sales volumes moved south. A survey conducted by the company's management revealed that customers were dissatisfied with the poor customer service and frequent service failures. What service recovery steps can OSS take to regain its customers?

Answer:

21.11 Communication and Relationship Marketing

Generally, organizations bombard customers with information on their products and services through mails and phones, and believe that they have communicated effectively with them. What most companies fail to understand is that communication is effective only when there is a two-way dialogue with the customers. Organizations can use advertisements in different media, direct marketing letters, exhibition stalls and brochures to initiate dialogue with customers, but they should not be under the mistaken impression that they are means of interaction. This is only planned communication by the company to reach out to the customer. If a customer responds to the company's initial communication, then the process of interaction between the organization and the customer begins. The customer may seek various details on the services being offered by the organization and if satisfied by the responses of the service representative, he/she (the customer) may decide to hire their services. Thus, the customer enters into a relationship with the organization.

Relationships become fruitful when the organization helps the customer understand his role in the service process to obtain prompt and desired service, gives him all the information he needs and extends complete support whenever required. Further, the organization also needs to understand the latent needs of its customers, offer them personalized services and strengthen the relationship so much that the customers perceive a formidable loss in switching to a competitor. Continual and constructive two-way communication is the key for such a relationship.

21.11.1 The Four 'R's of Rewarding Relationships

The relationship between a company and its customers' needs to be mutually rewarding and fruitful. It is, however, not an easy task for companies to maintain such a relationship for long. All customers are not alike and organizations cannot afford to maintain a relationship with all of them. They should choose the right customers and then invest in the relationship.

Organizations need to keep track of the following parameters in order to build and develop successful customer relationships:

Relationship

A relationship should go beyond a one-time service transaction between the customer and organization. This is, in fact, the basic premise of relationship marketing.

Organizations tend to ignore existing customers while concentrating a little too much on attracting new ones. However, they do it at their own peril. In this era of intense competition, where no player is able to offer significantly different benefits than other players, a customer needs to be constantly assured by the service organization that he has made the right choice by purchasing its service. If we look at the cellular services market today, there is intense competition among the various players like Airtel, Vodafone, Reliance Jio, BSNL, etc. To differentiate themselves and reassure the customer that he has made the right choice, these companies offer various freebies to them. Even if a customer does not perceive any problem in the service offered by his existing service provider, he may switch to a competitor because he doesn't perceive any difference in service. It is only by building a relationship with customers using the various bonds discussed earlier that an organization can retain customers.

Realization

Organizations should realize that relationships are successful only when both the parties involved benefit from it. They should, therefore, give due attention to understanding the value their customer relationship strategy offers to its customers. When a company makes a service offering (say, a core service supplemented by some supplementary services), the customer compares it with those of the competing firms in the market and estimates its value in comparison to competitors' service offerings. A higher perceived value leads to customer

satisfaction. If the organization continues to offer quality service unfailingly to that customer, their relationship becomes stronger. When this happens, the customer may not consider any alternatives and will continue to purchase the services of that organization. This relationship eventually becomes a long-term relationship.

When a customer becomes loyal to an organization, he tends to purchase more services from the organization. Thus, the relationship turns out to be more profitable for the organization. But during any of these stages, if there are major changes in the market conditions, the relationship may either break or become weak. For example, if a competitor introduces a markedly superior quality service or offers the same service at a very low price, it might have a strong impact on the consumer's behavior. When the difference in quality or service is significant, the perceived value of the organization's service declines and the customer switches to a competitor. Therefore, the management has to constantly monitor the changes in the market as well as customers' expectations. The management, accordingly, redesign and realign its relationship strategies.

Response

Customers value the responsiveness of the service provider as it indicates their value to the company. Therefore, organizations need to train and motivate their employees to respond to customers' complaints and requests promptly. In fact, service organizations need to have customer focus and attention ingrained in their corporate culture and in their employees. The time and quality of service delivery should match customer expectations. For example, a restaurant promises that a good quality executive lunch will be served within five minutes of placing the order. If it fails to meet the quality expectations of its customers or takes a considerably longer time to serve the food, the customers will get disenchanted. From time to time, employees should attempt to know whether customers have any complaints with the service delivery process. If there are any, the employees should address them immediately.

Relevance and respect

Organizations should do adequate research to understand customers' requirements and their purchasing patterns. They should use effective communication to enhance customer relationships and profit from them. For example, if a customer receives a package offer from a resort while he is browsing the net for a holiday trip the probability that the customer will be interested is high. But if the same customer is searching the Internet seriously for some information on a conference and the message by the holiday resort appears, it is unlikely to get noticed. On the other hand, it might even irritate the customer.

Organizations should also respect a customer's desire for privacy and anonymity. If the customer signs up for a promotional newsletter from an organization but later requests the organization not to send the newsletters, it should immediately

stop. Similarly, if the customer does not want the personal information collected from him by the organization to be disclosed to other marketing companies, the organization should not share the information. If the service organizations fail to honor customers' concerns, customer relationships will suffer and customer retention and customer loyalty will become a distant dream.

Example: Patagonia Realization of Customers Needs

Patagonia created a brand identity that solidifies its standing as an environmentally conscious business, appealing to consumers who value using organic and recycled materials. They proved it by encouraging customers to purchase used Patagonia clothing rather than new. They also offered customers clothing repairs from a mobile repair shop, mending broken zippers and tears and offering DIY solutions -- without charge.

Like-minded consumers believed that Patagonia stands for a higher purpose than turning a profit and were inspired to support a brand that concretely demonstrates their values.

Source: (January 31, 2022). 5 Examples of Relationship Marketing Done Right. Retrieved from https://www.cm.com/en-us/blog/relationship-marketing-examples-done-right/. Accessed on 1-6-2022.

Check Your Progress - 2

6. Which of the following gives the correct sequence that is followed by organizations while formulating a strategy?

    a. Conduct SWOT analysis – Formulate mission – Formulate vision – Formulate strategy

    b. Conduct SWOT analysis – Formulate vision – Formulate mission – Formulate strategy

    c. Formulate vision – Formulate mission – Conduct SWOT analysis – Formulate strategy

    d. Conduct SWOT analysis – Formulate strategy – Formulate mission – Formulate vision

    e. Formulate mission – Formulate vision – Conduct SWOT analysis – Formulate strategy

7. Which of the following statements explains company's future path, direction for progress and guidance to its plans and strategies?

    a. Purpose; SWOT Analysis

    b. Vision; Mission

    c. Mission; Purpose

    d. Vision; SWOT analysis

    e. Mission; PEST analysis

8. *Fly High*, an airline company, offers the frequent flier program to its regular customers. In this program, the company gives certain points to each of its regular customers, which can be redeemed in the future for obtaining discounts while traveling or staying in hotels, or to get gift vouchers. What level of the strategy has the company adopted through its frequent flier program?

    a. Social bonding
    b. Structural bonding
    c. Customization bonding
    d. Customer bonding
    e. Financial bonding

9. *In Friends*, an apparel store, when a customer asks for a product that is out of stock, the employees of the store note it down with the details of the customer, and informs him/her when the product arrives at the store. What is it that the store is creating through such initiatives?

    a. Social bonds
    b. Financial bonds
    c. Structural bonds
    d. Customization bonds
    e. Customer bonds

10. Which of the following processes identifies service failures, resolves customer problems, and provides customer insights to improve the service system?

    a. SWOT analysis
    b. Service recovery
    c. Retention strategy
    d. Relationship marketing
    e. CRM

21.12 Summary

*   Berry and Parasuraman defined relationship marketing as a process of attracting, maintaining, and enhancing relationships with customers.

*   Relationship marketing benefits customers as well as organizations. Customers can reduce their time and search costs and avoid anxiety by selecting services from a known supplier. Organizations can also save on the time and effort involved in attracting new customers. They can also benefit from the positive word-of-mouth publicity given by loyal customers.

- Some of the factors that differentiate relationship marketing from traditional marketing are focus on customer service, long-term orientation, a high level of commitment to customers, customer interaction, and commitment to quality.

- In order to adopt relationship marketing, organizations need to maintain relations with not just the customers but also with employees, recruiters, suppliers, referrals, and influencers.

- Organizations need to develop a sound relationship strategy to enhance their relations with customers. The strategy is developed in a systematic way as follows – develop the mission and vision, conduct SWOT analysis, formulate strategy, and develop plans to improve service quality.

- Some of the retention strategies used by customers are offering financial incentives, forming social bonds, customization bonds and structural bonds, monitoring relationships, adding value to services, increasing customer contact, and enhancing customer service.

- Sometimes, despite efforts made by organizations to offer a service with zero-defects, some errors creep in and the customer may experience problems. To deal with such situations, organizations should have a proper service recovery system in place to identify and solve problems at the earliest and minimize the inconvenience caused to customers.

- Organizations practising relationship marketing should give the utmost importance to two-way communication to reap the desired benefits.

21.13 Glossary

Customization Bonds: This involves maintaining a special relationship with customers by customizing their services to suit the specific needs and preferences of each customer.

Four-Level Retention Strategy: Leonard Berry and A. Parasuraman believed that customer retention strategies can be formulated at various levels. The level of strategy adopted by the firm will determine the strength of customer relationship and thereby, the competitive advantage to the firm. They suggested different levels of strategies, which have evolved into four different levels – establishing financial bonds, social bonds, customization bonds, and structural bonds with customers.

Influence Market: Shareholders, financiers, consumer protection groups, environmentalists, government, media, trade unions and the general public constitute influence market.

Mission Statement: Mission statement defines the purpose of an organization's existence and its philosophy and provides a direction to the management.

Referral Market: Existing customers, intermediaries, consultants, etc., constitute the referral market for service businesses.

Relationship Marketing: It is a process of attracting, maintaining and – in multi-service organizations – enhancing customer relationships (according to Berry and Parasuraman).

Service recovery: It is a process that identifies service failures, effectively resolves customer problems, classifies their root cause(s), and yields data that can be integrated with other measures of performance to assess and improve the service system (According to Tax and Brown).

SWOT Analysis: This analysis helps organizations examine their internal environment to analyze their own strengths and weaknesses, and the external environment to identify the opportunities for and threats to the business.

Vision Statement: Vision statement explains the objectives of the organization and the position envisaged by it.

21.14 Self-Assessment Test

1. Relationship marketing is gaining a lot of importance with leading companies worldwide practising it. Define relationship marketing. What are its benefits? How is relationship marketing different from transactional marketing?

2. A service organization needs to maintain good relations not only with its customers, but a host of other members in the network. These members are categorized into six markets. Describe the six markets model in detail.

3. Service organizations that believe in the concept of relationship marketing formulate their strategies in a different way from traditional organizations. Explain the various stages of strategy formulation followed by organizations practising relationship marketing.

4. A service organization attempts to retain customers by providing quality service consistently, thereby winning over the customer. What are the different retention strategies that organizations use to retain their customers?

5. "Service organizations should have a proper service recovery system in place to pacify dissatisfied and disgruntled customers." Explain this statement. In what way can service organizations recover their customers?

6. Organizations practising relationship marketing should give the utmost importance to two-way communication to reap the desired benefits. Apart from this, what other parameters should they follow to build and develop successful customer relationships?

21.15 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.

21.16 Answers to Check Your Progress Questions

1. **(c) Relationship marketing**

   Relationship marketing can be defined as attracting, maintaining, and – in multi-service organizations – enhancing customer relationships. It can also be defined as an integrated and coordinated effort to identify, maintain, and build up a network with individual consumers and employees.

2. **(e) By providing value to an existing customer repetitive sales from him is promised and new customers also subscribe to the service**

   All the statements are true regarding the benefits of relationship marketing to organizations and customers, except statement e. Service organizations can benefit by maintaining a good relationship with existing customers. Existing customers will become repeat customers and even provide free word-of-mouth publicity, which will bring in more customers and additional revenues. However, notwithstanding the genuine efforts to add value to the existing customers, there is no guarantee that they will make repeat purchases. Also new customers may or may not get attracted to the given company.

3. **(c) Transactional marketing**

   The method of marketing in which a service organization or its employees communicate with the customer only when he/she approaches it for service, is called transactional marketing. In this kind of marketing, a service representative of the organization provides only the service sought by the customer. He/she does not make any effort to get to know whether the customer is satisfied with the service, whether he/she needs some other service, or would like to come back again for the service. The service representative is not interested in gaining the loyalty of the customer.

4. **(d) In relationship marketing, the service organization does not make any effort to get to know whether the customer is satisfied with the service, whether he/she needs some other service, or would like to come back again for the service**

    All the options are true regarding relationship marketing and transactional marketing, except option (d). In transactional marketing, the service organization does not make any effort to get to know whether the customer is satisfied with the service, whether he/she needs some other service, or would like to come back again for the service.

5. **(d) Influence**

    Influencers include shareholders, financiers, consumer protection groups, environmentalists, government, media, trade unions, and the general public. Failure to maintain good relations with any of these influential groups can have a negative impact on the reputation of an organization and can sometimes even affect its performance. Therefore, organizations try to maintain good relationships with these groups to enhance their image and also serve organizational interests.

6. **(e) Formulate mission – Formulate vision – Conduct SWOT analysis – Formulate strategy**

    Organizations formulate relationship marketing strategies in a systematic manner. The sequence in which organizations formulate their strategy is – (i) formulation of mission of the organization; (ii) formulation of vision of the organization; (iii) conducting SWOT analysis; and (iv) formulation of strategy by the organization.

7. **(b) Mission; vision**

    The first step in strategy formulation is determining the mission and vision of the organization. The mission of an organization provides the direction for its progress and guides its plans and strategies. A vision statement explains the objectives of the organization and the position envisaged by it. The mission and vision statements of a service organization should invariably focus on the customer and commitment to quality customer service.

8. **(b) Financial bonding**

    Organizations attempt to retain customers by offering them financial incentives. Customers attracted by these, tend to continue the relationship with the organization. In the given situation, Fly High's frequent flier program (through which the company is providing points that can be redeemed in the future for obtaining discounts) is an example of a financial incentive through which the organization wants to bond with its customers.

9. (a) **Social bonds**

    Social bonds can play a very important role in retaining customers when there is no other factor that encourages or prevents them from switching to competitors. In the given situation, the store personnel note down the details of a customer who wants a product that is out of stock in order to inform him/her about the arrival of the product in the future. Through these strategies, the store creates social bonds with its customers.

10. (b) **Service recovery**

    Service recovery is a process that identifies service failures, effectively resolves customer problems, classifies their root cause(s), and yields data that can be integrated with other measures of performance to assess and improve the service system. By adopting a service recovery system, service organizations get a second chance to rectify any mistake that occurred during the delivery of service in the first instance. If the problem is resolved and the customer is satisfied, he/she may give up his/her attempts to switch to competitors.

Unit 22

Customer Relationship Management

Structure

"Get closer than ever to your customers. So close that you tell them what they need well before they realize it themselves."

- Steve Jobs, an American inventor, designer and entrepreneur who was the co-founder, chief executive and chairman of Apple Computer.

22.1   Introduction

Keys to success in business remain the same: developing and keeping loyalty. To reach there know your customers: there is no better way than to anticipate needs, create services that satisfy those needs, and go the extra mile to deliver beyond the customer's expectations.

The previous unit covered Service Failure and Recovery in detail. Service failure can be averted through continuous feedback. Even assuming that service failure is inevitable, customers can be pacified, and service recovery can be achieved if the service organization has excellent relationship with customers. This unit covers in detail the concept of 'Customer Relationship Management' (CRM), which is the key to reducing the number of instances of service failure and

recovery of customers when service failure has recovered. Most companies focus on target segments and work towards attracting target customers to buy their products through advertisements, sales promotion and various other means. However, with competition intensifying, retaining customers was as challenging as attracting new customers.

Evolution of CRM: Marketing scholars have researched, examined and provided insights on approaches and processes for customer classification, selection, acquisition and managing of key customer accounts. Similarly, CRM practitioners have also developed and successfully implemented business development processes for frequency marketing[11], loyalty programs, cross selling, co-branding and other forms of strategic alliances in the domain of CRM.

The concept of Customer Relationship Management (CRM) is all the more relevant to service organizations as compared to other organizations. Service organizations like banks, airlines, telecom service providers, retail chains are the pioneers in practice of CRM. Banks have relationship managers who focus on key customers. Almost all airlines have frequent flyer programs for their loyal customers. Telecom service providers have tailor-made programs for their heavy users. Use of CRM in service organizations has become inevitable so much so that their success depends on how they successfully use CRM as a strategy to outsmart competitors.

22.2 Objectives

After studying this unit, you will be able to:

- Define CRM and its evolution
- View the benefits of CRM to service organizations and their consumers
- Identify the drivers of CRM from technology and profitability perspective
- Discuss CRM life cycle management
- Appreciate the critical success factors in CRM
- Describe analytical CRM

22.3 CRM: Definition & History of CRM

Definition:

CRM is often referred to as an approach to managing customers. It is also a system designed to manage all interactions with current and future customers. In the modern digital era, CRM systems use technology to organize and synchronize marketing, sales, customer service and technical support. CRM strategies

---

[11] Frequency Marketing is that where the frequency of broadcasting (or publishing) of advertisements and other marketing communication is increased so that it reaches more customers and also creates top of the mind awareness. Such a marketing strategy helps retain customers in the long run.

are designed with the purpose of managing and linking information about customers to increase the profitability of business. CRM has been defined by Atul Parvatiyar and Jagadish N.Seth[12] as "Customer Relationship Management is a comprehensive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer."

22.3.1 History of CRM

CRM is said to have emerged in the 1980s when customer service staff interacted with customers after getting inputs from the data base systems maintained by companies. However, data base at that time was unorganized, difficult to update and retrieve. Though information flow wasn't a seamless process, it still helped maintain effective customer relationships. The 90s saw the evolving of relationship management. It was during this time that the concept of rewarding loyal customers evolved. Organizations also started viewing customer service as a continuous process to retain customers and maintain brand loyalty.

Thus, CRM has reached its full potential, facilitating excellent customer service. More sophisticated tools have evolved providing 360 degree information on consumers. Also tailor-made software is available to fit the individual requirements of a service organization. Because of these developments, benefits enjoyed by customers like bonus points, loyalty programs can be systematically managed. Spending history of consumers, behavior pattern, etc. can be easily tracked and this seamless availability of information has created a revolution in customer servicing. CRM is extensively used by banks, telecommunication, hospitality and tourism, computer hardware and software companies. Consumers are the lifeblood of an organization and managements would therefore, go to any lengths to keep them happy. Therefore, CRM will continue to develop and reach greater heights.

Example: Microsoft Dynamics CRM's Unleashing Power of AI in Understanding Customers

Microsoft Dynamics CRM's automated features and AI help sales teams better understand their customers, know the best time to send an email, and monitor social channels better than ever before. MS Dynamics also included a direct connection to the business social platform LinkedIn. Their core CRM package—Dynamics 365 Sales—was focused on sales force automation and helping teams find and close opportunities.

Source: Phipps, P. (May 19, 2022). Top 6 CRM Software Solutions in 2022. Retrieved from https://www.cioinsight.com/enterprise-apps/crm-software/. Accessed on 02-06-2022.

---

[12] Jagdesh N Seth, Atul Parvatiyar, G.Shainesh, "Customer Relationship Management: Emerging Concepts, Tools and Applications," McGraw Hill Education, July 2017.

22.4   CRM – Benefits to Service Organizations and Customers

The benefits of CRM to service organizations and customers are detailed below:

- Front-line information systems are better equipped to efficiently manage customer relationships. With 360 degree information about consumers seamlessly flowing, service firms can serve customers more effectively. Data storage and access from a single location is enabled. Storage of all data pertaining to customers in a central location and access to such valuable information is the greatest benefit to service businesses. All departments have access to real time customer data. Efficient CRM systems also help organizations develop efficient business operations to reduce costs.

- Scrutiny of customer information from all perspectives is possible because of integration and consolidation of data. Since information about customer is available from all perspectives, upselling and cross-selling of products to existing customers is possible.

- Information can be used to achieve operational goals like lower distribution costs, streamlining order processing and inventory management,

- Better understanding of customers and their behavior enhances marketing effectiveness. With CRM systems, appropriate selection of customers for marketing programs is enabled. Marketers can thus target customers to provide customized services and reward select loyal customers. Such a strategy builds customer commitment and increases customer profitability.

- Since the various marketing activities bring high quality leads, acquisition of customers has become a lot easier.

- CRM system enables automated responses and prompts employees to follow up. Employees can thus, manage their time more efficiently.

- CRM has empowered consumers too to prefer the companies that merit their patronage.

To sum up, the basic principle of CRM is to offer higher value to customers in order to turn prospects into customers, customers into loyal customers, and loyal customers into partners. Since the entire focus of CRM is the customer, he stands benefited and the firm benefits by increasing revenue and cutting down costs.

CRM facilitates nurturing lifetime relationship with valuable customers.

> **Example: Zoho CRM Helps Amazon to Streamline their Service Provider Network in India**
>
> Zoho CRM was an online customer relationship management software for managing sales, marketing, support in a single system.   Zoho CRM's simple & user friendly UI paired with its customization capabilities helped Amazon to streamline their previously unstructured service provider network in India.
>
> *Contd….*

With Zoho, they were easily able to oversee the entire service provider network with complete transparency.

Anand Goyal, program leader for the service provider network, said, "The functions we've added have brought Zoho CRM beyond a simple contact management system to become more of a complete operational platform. We've integrated with Zoho Reports, and we have even extended the platform to include multiple features like SMS, email, and alerts for sellers, so they know when a contact is to be expected, what the status of their job is, etc." Furthermore, he explained that they can now "easily mitigate and control transactions that fall below standard in the same fashion."

Zoho CRM claimed that it helps customers improve lead conversion rates by 300%, improve customer retention by 27 percent, and shorten sales cycles by 24%. They also found that revenue per sale increased by 41% while saving 23% on sales and marketing costs. In other words, CRM helped make more sales at a higher value, faster, and for less cost.

Source: Davis, L. & Bottorff, C. (Nov 10, 2021). 6 Key Benefits Of CRM For Your Business. Retrieved from https://www.forbes.com/advisor/business/software/ six-key-benefits-a-crm-brings-your-business/. Accessed on 02-06-2022

22.5 Technological Drivers of CRM

The technological drivers for the growth of CRM are SMAC: Social Media, Mobile Phones, Analytics (Big Data and Analytics) and Cloud. CRM is technology driven and these technological developments in the macro environment have made better customer relationship possible. While technology empowers CRM by integrating information sources, the success of CRM implementation does not solely depend on technology.

22.5.1 Social Media

SCRM or Social Customer Relationship Management incorporates social media in CRM processes. Companies know that their existing customers and potential customers are present and active in the social media space. The scope of SCRM extends to integrating and managing online conversations and engagement of existing and potential customers and other stake-holders. It helps monitor social interaction through social listening tools and systems. SCRM strategies identify best ways and practices to facilitate and enhance customer support and experiences.

22.5.2 Mobile

Smartphones, tablets and mobile applications and their popularity are bringing about major changes in the way businesses reach out to their customers. Sophisticated CRM systems have become imperative to gather and integrate the information from the plethora of these sources.

In November 2016 mobile phones overtook PCs as the most popular and common usage device for computing. More websites are being downloaded in smartphones than in laptops or tablets. This milestone points to how computing is gradually shifting to mobile devices. The proliferation of these devices is forcing companies to make their websites mobile compatible and also devise policies and strategies to support smartphone users and exploit the usage of these to their advantage.

22.5.3 Big Data and Analytics

All companies have historic data accumulated with them and marketing departments now are using predictive analytic models to analyze and interpret data. Based on the interpretation, marketing insights are enabled, product and service recommendations are given to customers and sales prompt are given to sales persons. Marketing is thus made effective with the help of CRM Analytics. E-Commerce players like Amazon and Flipkart keep track of every click, transaction and conversation that customers make on their portals and then use this data to predict what products customers are more likely to buy from them. Customer data helps them segment customers based on browsing habits and spending patterns. Data analytics helps to identify both existing and loyal and new customers.

22.5.4 Storage of Data into the Cloud

A significant technological development that enables high-data storage capacity into the cloud was launched in the previous decade. Organizations that have implemented CRM need not install software on hundreds of systems in use, and are thus, discovering the huge benefits of moving data and software into a secure online environment. The data in cloud also enables staff to work from any location. How can a service provider win over customers using customer service? He should strive not just to satisfy customers but to exceed their expectations by delivering excellent customer service. There are, however, a few things that the service provider should realize to offer high standards of customer service. A service marketer should basically recognize that it is not just the point of contact with the customer that has an impact on customer service, but every aspect of business. Further, a service firm should improve the core service as well as the supplementary services, to improve the total service experience of the customer. Some of these services are offered prior to the transaction, some during the transaction and a few, after the transaction is complete. These accompanying services are accordingly categorized into pre-transaction, transaction and post-transaction services. Sometimes, they may also be classified as pre-contact, contact, pre-delivery, delivery, and post-delivery services.

Example: The Financial Times Uses Social Media for CRM

The Financial Times uses social media channels including Facebook and Twitter to share breaking stories, cultivate online communities, and create deeper engagement with readers. The company also uses Marketing Cloud of Salesforce. Salesforce, Inc. is an American cloud-based software company headquartered in San Francisco, California. It provides customer relationship management software and applications. Financial Times uses Marketing Cloud to monitor and engage with social customers. "Marketing Cloud lets us use social media to see how we're doing," says Financial Times CIO, Christina Scott.

Source: (2022). Social CRM – Joining The Dots For Happier Customers. Retrieved from https://www.salesforce.com/in/learning-centre/crm/social-crm/. Accessed on 02-06-2022

22.6 CRM Life Cycle Management

The essence of CRM is in understanding and calculating the life cycle profitability and potential for every customer and customer segment of the organization. Customer relationship cycle represents all the stages that a customer progresses in the relationship ladder starting from the time the company acquires the customer.

CRM is all about customer selection and acquisition, customer engagement, customer retention and customer extension.

Customer selection and acquisition:

An organization needs to ask the following pertinent questions while selecting customers for servicing: Which customers should the organization target? What value can they bring to the organization and what is their profitability? How and where to find these customers?

Customer acquisition is getting expensive because media has become fragmented. Therefore, organizations need to invest in different media vehicles to reach out and communicate to target segments.

Customer engagement:

Customers want to communicate through various channels like mobile, social media, telephone, internet, etc. During these service interactions, whether in person or online; customers are constantly assessing the organization and its services. They are subconsciously forming opinions about the quality of service. Based on these experiences and perceptions, customers will take crucial decisions like whether they would continue to patronize the firm, and whether or not they would refer prospects.

The goal of customer engagement is to provide customer service and support in every channel. With the help of technology and CRM systems, the marketer has a 360 degree view of the customer that would enable him to provide better support and facilitate better customer experiences at touch points.

Maximizing customer profitability:

The acquisition cost of a customer is high and therefore at the time of acquisition, a customer may not be profitable. Any organization in such a situation has to reduce the acquisition costs and simultaneously increase the profitability potential of the customer.

Once a customer is acquired, it becomes necessary for the company to work out strategies to increase the profitability of the customer by upselling, cross-selling or persuading the consumer to purchase the company's product more frequently.

Customer retention:

Since the company knows that the customer is profitable, it makes sense for it to retain the customer. CRM provides the tools to assess the customer profitability and provides insights on strategies to enhance the profitability of the customer. It also enables retention of the customer by ensuring loyalty. Knowledge about customers, continuous focus on delivering value and service quality to customers could help the firm retain customers. Rewarding of loyal customers by offering them structural, financial and social benefits plays an important role at this stage of the CRM life cycle.

Smart Relationship management necessitates that all CRM goals and objectives need to be a part of the strategy and further must be integrated into the operational and decision-making process.
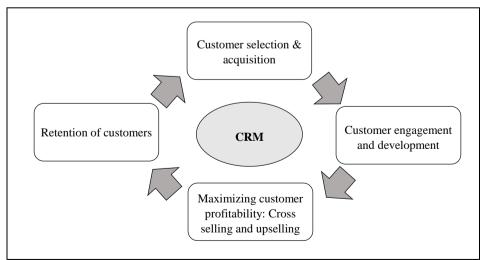
Figure 22.1 illustrates the CRM life cycle.

Figure 22.1: CRM Life Cycle

Source: ICFAI Research Center

Example: Customer Retention Through Xoxoday's Reward Incentives, Benefits & Payouts

Xoxoday CRM software helped businesses automate rewards and enhance customer experience while engaging and encouraging customers to make repeat purchases from your brand. Xoxoday Plum was a Rewards, Incentives, Benefits & Payouts Infrastructure for Businesses. Xoxoday's technology enabled companies to reward employees, customers, and sales & channel partners. Thousands of businesses of all sizes, from start-ups to large enterprises, used Xoxoday's business currency to send rewards, perks, incentives, & disburse payouts.

Source: Phipps, J. (May 19, 2022). Top 6 CRM Software Solutions in 2022. Retrieved from https://www.cioinsight.com/enterprise-apps/crm-software/. Accessed on 02-06-2022.

22.7 Critical Success Factors in CRM

CRM pursues the profitability objective and if profitability be the objective, companies should aggressively pursue cost reduction, customer satisfaction and customer retention. A company knows by experience that some customers are more profitable than others. This means retention of profitable customers is a key concern of CRM. CRM practitioners have recognized the following value drivers as instrumental in rendering CRM initiatives successful: The customer, the processes, leadership and vendors.

Customers

Customer profitability drives CRM. Knowing customers through their needs, desires and behavior is a pre-requisite to effective customer management. Leveraging on information about the customer to effectively retain profitable customers and add more profitable customers is one of the important organizational goals that drives CRM. In order to achieve this goal, a company needs to have specific measurable targets and defined parameters. For instance, measures of loyalty like frequency of purchase, size of purchase and other customer satisfaction measures like number of complaints, response to campaigns etc. have to be precisely defined.

Not differentiating customers would mean providing top flight services to all customers and this would increase the costs and would be a disaster for the company from an economic perspective. Uniform service strategy would also result in the less profitable customer group being more satisfied with the service and the more profitable customers with higher expectations being very dissatisfied. CRM systems by providing in depth information about customers, enables this micro segmentation and targeting of customers according to their level of profitability. Meeting customer value expectations is the key to customer profitability because this strategy helps retention.

Processes

Value delivered to customer is driven by efficient and effective processes. Customer perception and loyalty is an outcome of favorable or unfavorable customer experiences during customer encounters and the processes linked to them. Information about customers gets generated at the touch-points and is leveraged to make the processes more efficient, thereby facilitating memorable service experiences. The process analysis should focus on the following:

● Addition of activities that add value and result in favorable customer experiences.

● Elimination of activities that do not add much value.

● Enabling of effective and optimal utilization of resources to reduce costs.

To sum up, a good CRM system draws data from different sources (touch-points in the system,) in the organization and outside the organization. Further, a good CRM systemprovides unprecedented insights on what consumers want, what they feel about the service and how the service can be improved. Identifying gaps and problems at an early stage is enabled through seamless information about customer satisfaction and profitability.

Example: FundsIndia Delivers to the Critical Success Factors - Customers & Processes

FundsIndia was an online investment platform and provided customers access to a wide range of investment products, such as mutual funds, corporate fixed deposits, and stocks from the BSE. With over 1 million users, FundsIndia's vision was to provide every Indian a world-class investment platform and sophisticated investment advice.

FundsIndia wanted to pre-emptively know what the customers need, rather than having customers approach them for a solution to their problem. FundsIndia implemented CRM and saw dramatic improvements in productivity across their teams.

Out of 3,000 customers in a month, FundsIndia used to be able to effectively process only 20%. But when they moved CRM, they were able to quickly bring in all of the necessary data, and process their customer requirements in a streamlined manner. This led to a sharp increase in the number of customers processed each month. When you have everything streamlined in your business, with automated processes that require fewer hours and provide better results, what more could you ask for?

Source: (2022). Sundaraju, D. Online Investment Platform Increases Productivity 5X by Implementing Zoho CRM. Retrieved from https://www.zoho.com/crm/ customers/ fundsindia.html?source_from=zcx_home. Accessed on 02-06-2022.

22.8 Loyalty Programs

Customers are the primary source of revenue, and hence, winning their loyalty can substantially increase the payoffs to service businesses. It is common knowledge to all CRM (Customer Relationship Management) practitioners that retaining customers ensures continuous revenue flow because it costs 10 times more to get a new customer as compared to the cost of retaining an existing customer. Loyalty programs, a part of the CRM strategy, are structured marketing programs to try and retain the valuable and loyal customers of the company. Loyal customers also refer other customers and this is an added advantage.

Underlying benefits of loyalty programs

The obvious aim of loyalty program is to retain customers for a longer time and improve the lifetime value of the customer. Apart from that benefit, the following other benefits can be listed.

Make customers feel they are special: Service companies can train their service personnel to thank their customers for every business generated. Besides this, loyalty programs are designed to make customers feel special (by offering financial discounts) for doing business with the company. Every time the customer does business with the company, he/she is rewarded and doing business with the company becomes a pleasure.

Give an incentive to do business with the company: Consumers have plenty of options in this competitive world. Competitors are wooing customers through attractive offers. Loyal customers need to be rewarded because the knowledge that there is a reward attached to doing business would influence their choice in favor of the company.

Low cost advertising: Loyalty card, advantage card, reward card, points card or club card are plastic cards that identify the card holder as a member of a loyalty program. Every time the customer opens his wallet to use the loyalty card, the company name, logo gets visibility. Also, the consumer is reminded of all the past favourable service experiences. All these issues would serve as low cost advertising and enhance the brand value.

Help track customer information: The software that manages loyalty programs helps the company to track information about the profile of the customer and also their purchase pattern. Data analytics on consumer behavior and purchase pattern can drive the following initiatives: acquire new customers, increase the spending of existing customers, motivate consumer spending to higher margin products, reduce attrition rate of customers.

Almost all leading hotel chains, airlines, retail stores have loyalty program to promote the service and engage with customers. Loyalty programs particularly assume importance; because they help service companies measure the activities of customers. Loyalty programs that have explicable objectives and a clear plan of implementation are successful.

Creation of loyalty programs: A majority of the loyalty programs allow consumers to opt in. Consumers have the option of filling in an application form, which can be accessed from the website. By opting in, they become privileged to receive special offers. The following are the other points that must be kept in mind while creating and designing loyalty programs.

1. *Membership to be kept privileged:* Loyalty programs must reward customers who are spending the most. To dole out discounts to all and sundry may increase the cost and it becomes more like a discounted offer. Therefore, to make loyal customers feel privileged and special, invitations to such programs must be restricted.

2. *Issue membership cards or Identity cards:* This practice may be followed by all companies, but there are certain advantages to this practice. Consumers may develop a sense of identity. Also, consumers can track their purchases and calculate the purchase target they need to reach to become eligible for discounts.

3. *Communicate periodically:* Sending e-mail messages, mailers and newsletters to communicate the loyalty programs and the privileges enjoyed is important. The communication to be effective must have useful content and must simultaneously make customers feel that they are a part of the elite group.

Unfortunately, loyalty programs have become so widespread that customers compare the loyalty schemes of different companies. In order to make customers feel privileged, the rewards must be innovative and must result in unique consumer experiences.

Leadership and Management:

The initiative and resolve of top management is imperative for successful implementation of CRM system and processes. Top leadership and management generally tend to focus on products and markets. But to implement CRM, management needs to initiate organizational change keeping in mind the thrust areas of CRM, i.e., customer profitability through efficiency in operations. Management should also remember that CRM is not all about technology, even though it is technology driven. Senior management must ensure that the organization is aligned to support the focus on customers and processes.

Vendors:

In the CRM space there are software vendors, consultants and hardware suppliers. CRM software vendors offer software solutions that provide comprehensive data about customers at a low cost and it is upto the company concerned to choose the features and benefits they desire to maximize the satisfaction level of customers. The choice is often based on price, customization, compatibility, usability and a host of other factors.

Example: Costco Creates Customer Loyalty

Costco was a multinational company that operated membership big-box retail stores. The company grew to 152.7 billion dollars annually, and makes for a fantastic case study on customer loyalty. Costco's loyalty program began with their membership business model. Members paid an upfront cost to be able to enter the store and purchase goods. In return, Costco provided low, competitive prices, private label items, and other exclusive perks.

Part of Costco's loyalty strategy was to "provide members with quality goods and services at the most competitive prices." Instead of maximizing profits per transaction, they focused on maximizing each customer's lifetime value to the company.

Source: Serrano, S. (March 16, 2021). [case study] Build customer loyalty like Starbucks + Costco. Retrieved from https://www.barilliance.com/customer-loyalty-programs/. Accessed on 02-06-2022.

Activity 22.1

Identify the bank, mobile service provider and hospital, your family patronizes. Ask yourself whether your family wishes to switch or continue with the same company. List out the reasons for the decisions taken. How do you think a CRM program would prevent customers from switching programs?

Answer:

Check Your Progress - 1

1. Which of the following are examples of adding financial benefits to customer relationship?

    a. Computer programs to improve information transfer

    b. Frequent flyer programs and discount offers

    c. Computer linkages to improve information transfer

    d. Sending mails about new product arrivals

    e. Sending customized offers to the customer

2. Which of the following does not fit into the concept of relationship marketing?

   a. The Intensity of the exchanges between customers and sellers

   b. The importance of the product in exchanges between customers and sellers

   c. The frequency of the exchanges between customers and sellers

   d. The long-term nature of exchanges between customers and sellers

   e. None of the above

3. Which of the following is not a key technological driver of CRM?

   a. Social media

   b. Mobile

   c. Big Data

   d. Cloud

   e. Robotic technology

4. Which of the following is not a part of the customer relationship life cycle terminology?

   a. Acquisition

   b. Customer selection

   c. Retention

   d. Maintenance

   e. Customer advocate

5. Which of the following receives maximum emphasis in CRM?

   a. Selling

   b. Customer profitability

   c. Product perfection

   d. Production

   e. Revenue

22.9 Analytical CRM

With the proliferation of Self Service Channels, face-to-face interaction with the customer has become rare and difficult. Under such circumstances, service firms are using analytics to understand customers and their relationship with the organization. The channels to support interaction with consumers are many and are increasing by the day, because marketers are always on the lookout for faster and more effective ways of interacting with customers. All these channels churn out a wealth of information about consumers. CRM analytics, a tool to analyze and integrate the mind boggling data on consumers has assumed significance.

Definition

CRM analytics gathers, categorizes, arranges and integrates consumer data captured within (touch points within the organization) and beyond the organization (social media and other channels) and makes it available to multiple users to better serve customers. Analytics also helps the company understand its performance in areas like sales, marketing, customer satisfaction and also identify gaps in service.

Application of CRM Analytics

The application of CRM Analytics extends to the following areas:

22.9.1 Better Understanding of Customer

As pointed out earlier CRM analytics integrates data from all internal and external channels like touch points within the organization, e-mail, internet, social media and websites. This enables a company to identify the customers to be targeted for various marketing activities. Firms are realizing that CRM approach can be successful only if they pursue profit maximization as against revenue maximization as the goal. The customer's lifestyle and demographic profile, psychographic profile, purchase pattern, etc. could enable insights on whether or not the company's product or service would be the preferred choice of the customer.

A good CRM strategy needs to be beneficial both for the customers and for the firm as well. Analytical CRM is used as a tool to drive profitable relationships.

22.9.2 Customer Selection based on Differentiation

Since the focus of CRM is on customer profitability, success of CRM depends on appropriate selection of profitable customers. Experts in CRM area stress the importance of spotting, acquisition and retention of profitable customers. While companies may benefit by engaging loyal and profitable customer, they also benefit by avoiding unprofitable and demanding customers. Every company that offers discounts and sales promotion schemes are likely to attract such customers who may be a drain on the resources of the company.

Demanding customers are those who would wait for discount offers to make purchases in small quantities. Online retailers know by experience a majority of customers of customers are bargain hunters chasing deep discounts.

Effective CRM thus demands that a firm knows which customers are profitable and which customers bring in losses. Is it feasible and profitable for a service firm to make relationship-based differentiation? Almost, all retail giants use this technique to grow and increase profits. On 2nd October 2019[13], Tesco announced

---

[13] https://www.thesun.co.uk/money/10049062/tesco-clubcard-plus-discounts/

that Tesco shoppers would be able to sign up for 'Clubcard Plus membership scheme' to avail of discounts on groceries and other benefits. Further, Tesco announced that all discounts could be accessed directly from Tesco Clubcard app. 'The new Tesco Clubcard Plus Scheme' integrates all the benefits that Tesco offers through various schemes in one card.

Standard Chartered Bank and HSBC in the banking industry use data analytic techniques to manage customer relationship and profitability. Even public sector banks in India like SBI have identified that pensioners and other small account holders take up a good deal of their employee's time. These banks therefore are on a drive to train pensioners to use ATM, net banking and other self-serving channels. Ritz Carlton in hotels and Singapore Airlines in air travel use analytics to target profitable customers.

22.9.3 Lifetime Value of a Customer

To determine customer profitability and dovetail it into CRM scheme the customer's relationship with the company over time needs to be assessed. The customer's age indicates the anticipated length of the customer's relationship with the company. Customer's demographic profile, life style, purchase pattern, history of repeat purchases and a few other aspects could be factored in to calculate the life time value of the customer. Discounting techniques such as Net Present Value (NPV) methods are used to provide insights on the present value of the customer, based on the life time cash flows that he or she would bring in. A service firm can make a comparative study of the worth of different types/segments of customers and accordingly make offers to retain their valued customers.

22.9.4 Patronizing Loyal Customers Improves Bottom Line

Frederick Reichheld, author of The *Loyalty Effect and Loyalty Rules*, found that most companies lose 50% of consumers every five years and 50% of employees every four years. According to him disloyalty stunts growth is from 25% to 50%. In his view, the only panacea to the disloyalty challenge is 'Value Creation'.

Customer retention rate reflects the level of loyalty of customers and value creation alone can achieve the mission of customer retention. While businesses are run for profit making, 'Value Creation' gives the reason for existence of business. The following are the benefits of loyal customers:

- Low employee turnover, results in better servicing of customers and less expenditure in training.

- Loyal customers refer prospects and hence enable acquisition of customers at low cost.

- Loyal customers make repeat purchases, buy other products of the company and thus increase the revenue and profits of the company.

- Loyalty helps defend market share, revenue and profits in the wake of severe competition.

- Loyal customers are not price conscious and are not costly to serve.

According to Loyalty guru, Fred Reichheld, loyalty level of customers can be estimated by a simple metric, 'the willingness of a customer to recommend the company to friends and acquaintances'. Certain organizations measure repeat purchases and this they believe represents the loyalty dimension of relationship.

22.9.5 Social Media Analytics

Most customers are present in the social media and they have conversations on various subjects. If continuously observed and scrutinized, content in social media can be captured and integrated with customer data collected through other sources. This kind of a holistic analysis can enable greater insights on how people feel about the company's services, as compared to the literal interpretation of words, phrases and content in social media.

To sum up it is apparent that companies have more customer data than ever before. Big data that company has with it, could be structured or unstructured. It presents opportunities, but analyzing, interpreting and making sense out of the same, could pose a challenge. A service firm can understand how a consumer is going to behave in the future based on his demographic, psychographic profile and past behavior. For example, a telecommunications company could predict the likelihood of a customer turning to another service provider after the expiry of the contract. A service firm can try and understand how a customer group would respond to a marketing offer or a new service that is to be launched. In the 21st century CRM analytics is an effective tool in the arsenal of marketers to make effective decisions to achieve business goals.

Example: BRITA Gets s Rich CRM Dashboard

BRITA water filters were the world's leading drinking water filters. Brita's CRM was restructured into the proper CRM structure of Leads, Accounts, Contacts, and Potentials. The CRM was customized for an appropriate way required by the company, with industry-specific fields created. In Reports, a dashboard was set up and customized to Brita's liking. This rich dashboard showed Brita management everything they needed to see, saving them from having to manually run reports. Staff was trained by on CRM, Reports, and the API Integration. Emails were integrated..

Source: Bunte, M. (March 23, 2022). Zoho CRM Review. Retrieved from https://www.betterbuys.com/crm/reviews/zoho-crm/. Accessed on 02-06-2022

22.10 Customer Classification Based on Acquisition and Retention Costs

Jacquelyn Thomas, Werner Reinartz and Kumar in their article[14], "Getting the most out of all your customers" in Harvard Business Review, have classified customers based on the costs incurred to acquire and retain them. The authors in their article in HBR have classified customers into four groups: casual, low maintenance, high maintenance and loyal.

Casual customers are preferred by companies because they are easy to acquire and easy to retain. Unfortunately, this category of customers become a neglected lot because the costs incurred is low and they are least demanding.

Low maintenance customers are those where the company incurs considerable costs towards acquisition, but maintenance costs incurred for retention is low. These customers take time to judiciously opt for a service company. However, once they make a decision and relationship with the company is built, they show greater commitment to the relationship. The decision to switch arises only if CRM personnel commit too many mistakes and if there are too many service failures.

The third category of customers is that of 'high maintenance customers'. Here the acquisition cost is low, but the cost of retaining the customers is high. These customers switch brands and continuously evaluate and compare the value of the offering with competing brands. If the company's offering falls short of what competitors offer, they do not mind switching brands. As a result, retaining them works out costly to the company.

The fourth and the last customer type is that of loyal customers. In the case of loyal customers both acquisition and retention costs are high. These are premium group of customers and hence to acquire them the company needs to make an offer that is appealing to them. Since they are high-end customers to retain them the company needs to treat them well and provide faultless high-end services.

Thus, a company needs to study the acquisition costs and retention costs of customers and accordingly decide on the service offer they need to provide to each of the customer groups to derive maximum value out of servicing them.

Activity 22.2

It has been observed that service companies in India are slow to adopt CRM. However, organizations operating in banking and financial services, telecom and BPO industries consider adoption of CRM as a priority. What are the reasons?

---

[14] Jacquelyn S Thomas, Werner Reinartz and V.Kumar, "Getting the most out of all your customers", Harvard Business Review, July-August, 2004

A number of reasons like inadequate IT infrastructure are cited as the main reasons for slow adoption of CRM by companies. Research and list out 4 reasons to explain why Indian companies are slow to adopt CRM. Which other industries in India have been quick to adopt CRM. Illustrate your answer with suitable company examples.

Answer:

Check Your Progress - 2

6. Which of the following is not a key marketing activity of CRM?

    a. Customer cross sell

    b. Customer selection

    c. Customer query

    d. Customer retention

    e. Customer acquisition

7. Which of the following is very important for reaching out to the customer with a suitable service offer and strategy?

    a. Customer name

    b. Customer profile

    c. Customer credit rating

    d. Customer e-mail address

    e. Customer postal address

8. Which of the following is true of CRM?

    a. CRM demands that there ought not to be differentiation between customers

    b. CRM focuses only on giving financial benefits to customers

    c. Only certain customers benefit out of CRM

    d. CRM increases profits through customer profitability

    e. CRM increases profits by increasing the number of customers

9. Under what situations does a company not feel motivated to adopt CRM?

    a. When a company has high switching costs

    b. When a company has customers, who differ in terms of profitability

    c.   When a company wants to bring down the operating cost of servicing customers by studying what service adds value

    d.   When a company wants to identify touch points and work out strategies to enhance customer satisfaction at those points

    e.   When the competition level is very high in the industry

10. Which of these options is not a measure of loyalty?

    a.   The number of suggestions given by customers

    b.   The repeat purchases measured

    c.   Word of mouth recommendation given by satisfied customers

    d.   Customers not just waiting for offers but, buying on a regular basis

    e.   Customers sharing favourable service experiences in the social media

22.11 Summary

- CRM helps understand needs of customers to better service them with a view to cementing long term relationship with them.

- The objective of CRM is to specifically target mutually beneficial customers from customer profitability perspective. Customer satisfaction, efficient operations, increase in sales and profitability, retention of existing customers, attracting new customers, running of targeted and effective campaigns are some of the key objectives of CRM.

- CRM facilitates seamless flow of customer data by integrating data from different channels. It helps identify profitable customers and reward them.

- CRM experts have reiterated the point that acquiring new customers is 5 times more expensive than retaining customers. CRM helps service organizations formulate strategies to retain customers.

- CRM creates opportunities and facilitates cross selling, up-selling to profitable customers.

- Technological drivers such as social media, mobile, analytics and cloud have accelerated the widespread use and application of CRM in companies.

- Selection and acquisition of customers, engagement of customers, maximizing customer potential and retention of customers are the various stages in the CRM life cycle. The various tasks in this life cycle define the essence of CRM.

- Finally, CRM Analytics helps predict consumer behavior and responses through use of predictive models. In the 21st century CRM analytics is an effective tool in the arsenal of marketers to make effective decisions to achieve business goals.

22.12 Glossary

Customer Acquisition Strategies: Techniques to gain new customers. CRM techniques provide and integrate information of leads obtained via e-mails, social media, touch points etc. Prospects are profiled to convert them into sales.

Customer Retention: Engaging existing customers through dialogue and work out strategies like loyalty programs to retain them.

Call Centre: A facility that undertakes to handle volume of calls, screens and filters calls and forwards them.

Cloud CRM: Cloud CRM is that where the CRM data, tools and software resides in the cloud and delivered to end users via internet.

Customer Profile: A record that provides details like demographic and psychographic data about customers. Also, the purchase pattern, contact history and registered preferences of the customer are recorded.

Enterprise Resource Planning (ERP): A set of software modules that provides departmental or functional support to increase the speed and efficiency of the operations.

Lifetime Value of Customers: The long-term income generated by the customer minus the costs involved in servicing him or her.

Mobile Commerce: The ability to conduct business and complete transactions through smartphones.

Switching Costs: The costs that a customer has to incur if he or she wants to switch brands. This cost makes the customer dependent on the company and erects barriers to switching.

Touch Points: The contact points or the points where the customer directly interacts or gets in touch with the company. They could be call centers, relationship managers, websites, ATMs, front office of a company etc.

22.13 Self-Assessment Test

1. 'Customer Loyalty' drives customer profitability': Do you agree to this statement? If so, list out four important reasons to show how loyalty increases customer profitability.

2. What are the various stages in CRM life cycle? Write a short note on each.

3. Can you estimate a customer's lifetime value? What are the aspects you would consider while doing so?

4. Why is customer selection important? What can a bad/wrong customer do to your company?

5. List out a few loyalty schemes that you are aware of (that is commonly practised by service firms).

22.14   Suggested Readings/Reference Material

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

2. Valarie A. Zeithaml and Mary Jo Bitner (2018). Services Marketing: Integrating Customer focus across the Firm. Seventh edition. New Delhi: McGraw-Hill Education.

3. Dr Ravikumar K (2020). 'Marketing and Services Management', Notion Press.

4. Dr. Subramaniam Seshan Iyer (2021). 'Marketing of Healthcare Services: A reference book', Notion Press.

5. Dr Manita Matharu, Dr Manish Joshi and Dr P Jagadeesan (January 2022), 'Service Marketing', Red'shine Publication Pvt. Ltd.

22.15   Answers to Check Your Progress Questions

1. (b)   Frequent flyer programs and discount offers

Frequent flyer programs and discount offers to customers' result in financial savings. Both these programs are designed to reward loyal customers who use the firm's service repeatedly.

2. (b)   The importance of the product in exchanges between customers and sellers

Relationship marketing emphasizes on the importance of consumers, engagement with customers and consumer profitability. Option b, 'importance of the product in exchanges between customers and sellers' doesn't gel with the concept of relationship marketing. This is because in CRM, customer is more important than the product.

3. (e)   Robotic technology

The technology drivers of CRM include a, b, c and d, i.e., Social media, Mobile, Cloud and Analytics. Robotic technology is not relevant as of now for Customer Relationship Marketing.

4. (e)   Customer advocate

Customer advocate is not a part of the CRM life cycle terminology.

5. (b)   Customer profitability

CRM emphasizes customer profitability

6. **(c) Customer Query**

   Customer acquisition, customer selection, customer retention, customer cross-selling are key marketing activities of CRM. Customer query is a question posed by the customer. Thus, a customer query is not a part of CRM.

7. **(b) Customer profile**

   Customer profile is very important to plan a strategy to reach out to the customer and make a suitable customized service offer. The other options like customer postal address, e-mail-id, name etc. give specific customer details. But they provide little help to plan a relationship strategy.

8. **(d) CRM increases profits through customer profitability**

   Only statement in option d, 'CRM increases profits through customer profitability' is true of CRM. All other statements are false.

9. **(a) When a company has high switching costs**

   It is difficult for customers to switch loyalties and shift to competitors. Under such circumstances a company may not feel motivated to adopt CRM. Under all other circumstances (b, c d and e options), a company may have valid reasons to adopt CRM.

10. **(a) The number of suggestions given by customers**

    Number of customers referred, repeat purchases or consistent purchase (not waiting for discount offers), sharing of favourable service experiences in social media, etc. can all be signs and measures of loyalty. However, suggestions given by customers (option a) is not considered as a measure of loyalty.

Unit 23

Developing and Managing Customer Service Function

Structure

"There is only one boss. The customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else."

– Sam Walton, an American businessman and entrepreneur best known for founding the retailers Walmart and Sam's Club.

23.1   Introduction

The importance of customer support is that customers keep coming back and making referrals to others when they are being treated like kings. With exemplary customer service, the longer you stay in the market, the more customers you make. Customer service helps business retain customers and extracts more value from them.

In the previous unit, we discussed customer relationship management. In this unit, we will look at developing and managing the customer service function.

Organizations in the past, offered a product or service to the customer and their responsibility ended with that. But now, with customers becoming increasingly aware and vast amount of information available to them from various sources,

their needs and expectations from service providers have increased dramatically. Customers select a service provider depending on several parameters, of which customer service is the most important. They observe and analyze various factors when they accept a service from an organization – the quality of core-service offered, the range and quality of supplementary services, reception by the service personnel, the time and effort invested in using the service, and any opportunity costs that were involved. All these factors will be considered by a customer while rating and choosing a service provider. Therefore, service providers who ignore these aspects of customer service fail to create a positive impression on the customer. They are rated as poor service providers. This leads to a reduction in repeat customers and ultimately affects the profitability of the organization. If the organization does not take the necessary corrective steps, its survival itself might be threatened. Therefore, organizations worldwide are emphasizing on the development and management of an effective customer service function.

This unit will define customer service, ways to improve it, and the role of technology in improving it. It will also discuss the customer service management cycle, supplementary services, how to enhance customer service through an improved service delivery process, and the steps to implement a customer service program in an organization.

23.2 Objectives

After studying this unit, you should be able to:

- Define customer service
- Find out ways to improve customer service
- Identify the role played by technology in improving customer service
- Explain the customer service management cycle
- State the importance of offering supplementary services in addition to core service
- Determine how to enhance customer service through improved service delivery process
- Recognize the steps involved in implementing an effective customer service program

23.3 Customer Service Definition

According to the ACA group[15] (global group of companies that offers a range of services to the business sector in five areas: Consultancy, IT, Commodity Trading, Energy and Technology), "customer service is the ability of an organization to constantly and consistently give the customer what they want and need."

---

[15] ACA group of companies is global group of companies that offers a range of services to the business sector in five areas: Consultancy, IT, Commodity Trading, Energy and Technology

Christopher Lovelock defined customer service as follows:

"Customer service involves task-oriented activities, other than proactive selling, that involve interactions with customers in person, by telecommunications, or by mail. This function should be designed, performed, and communicated with two goals in mind: customer satisfaction and operational efficiency."

Example: Viking Cruises: One of The World's Best in Customer Service

Viking Cruises, founded in 1997, offered scenic cruising on rivers, oceans and lakes around the world. Designed for discerning travelers with interests in science, history, culture and cuisine, Chairman Torstein Hagen often says Viking offers guests "the thinking person's cruise" in contrast to mainstream cruises. In its first five years of operation, Viking was rated the #1 ocean cruise line in Travel + Leisure's 2016, 2017, 2018, 2019 and 2020 "World's Best" Awards.

Since the launch of Viking's ocean cruises in 2015, the company was named a #1 Ocean Cruise Line every single year. It was considered World's Best in cruising with considerations in the following cruise features: cabins/facilities, food, service itineraries/destinations, excursions/activities and value.

Source: (July 08, 2020). Travel + Leisure Again Names Viking "World's Best" In 2020 Awards. Retrieved from https://www.prnewswire.com/news-releases/travel--leisure-again-names-viking-worlds-best-in-2020-awards-301089666.html. Accessed on 06-06-2022.

23.4   Improving Customer Service

How can a service provider win over customers using customer service? He should strive not just to satisfy customers but to exceed their expectations by delivering excellent customer service. There are, however, a few things that the service provider should realize to offer high standards of customer service. A service marketer should basically recognize that it is not just the point of contact with the customer that has an impact on customer service, but every aspect of business. Further, a service firm should improve the core service as well as the supplementary services, to improve the total service experience of the customer. Some of these services are offered prior to the transaction, some during the transaction and a few, after the transaction is complete. These accompanying services are accordingly categorized into pre-transaction, transaction and post-transaction services. Sometimes, they may also be classified as pre-contact, contact, pre-delivery, delivery, and post-delivery services.

Suppose, a person must go to a diagnostic lab for a blood sugar test. He/she may call up the receptionist for details like timings of the lab and time taken for the test. This is pre-contact service. He then goes to the lab and the service personnel there takes his blood sample for the test. This is a contact service. The customer pays the bill and may enquire about the time at which he can collect the reports. The service personnel will answer the query, take the money, and give the receipt.

This is the pre-delivery service. The customer comes back at the specified time to collect the report and the reception delivers the report. This is the delivery service. Later, the person may contact the lab for some clarification and one of the lab technicians may answer his/her queries. This is the post-delivery service.

To excel in delivering customer service, service providers should take the following steps:

Divide the basic service into separate service activities: Each core or supplementary service provided by the organization should be divided into specific service activities/tasks. This will enable the management to set the standards for each service activity, communicate them to its employees, and then train them accordingly to maintain the standards.

Conduct periodic surveys: Conducting periodic surveys of customers and the employees will help an organization understand customer expectations better. It will also enable the management to understand the satisfaction levels of customers where existing services are concerned and thereby identify the areas for improvement.

Provide necessary infrastructure and advanced technology: Good infrastructure and technology enable the employees to deliver high quality services to customers. For example, Internet banking helps banks offer convenience and speed of transaction to customers. Advanced technology has made this possible and banks use it as a competitive advantage to offer better customer service.

Track changes in the external environment: The management should constantly monitor changes in the external environment, like increased competition, technology changes and change in customers' tastes and preferences to introduce changes in the organization's service delivery processes.

Example: USAA Improving Member Experience with Faster, Modernized Mobile App

USAA's mobile app was one of the only apps within the financial services industry that provided the all-in-one, fully integrated consumer experience for banking and insurance, including property, auto, and life. In April, 2022, USAA announced the upgrade of its award-winning mobile app to provide a faster, more personalized user experience and advanced search functionality that leverages predictive text and natural language features. The upgrade, which required no action from existing users, provided members with immediate benefits and served as a foundation for further innovation across USAA offerings.

Contd....

> The new app leveraged the power of machine learning to provide integrated, personal insights and actions with visual upgrades, faster speeds on delivery and performance as well as simplified, engaging messaging. Specifically, the upgraded app was smarter, simpler and safer as it utilized the state-of-the-art, real-time automated behavior analysis to help protect members from fraudulent activity.

Source: (April 05, 2022). USAA Improving Member Experience with Faster, Modernized Mobile App. Retrieved from https://www.prnewswire.com/news-releases/usaa-improving-member-experience-with-faster-modernized-mobile-app-301518005.html. Accessed on 06-06-2022.

Activity 23.1

In July 2019, Indigo's internet server was down and because of the server glitch, 63 flights were delayed. Give suggestions to Indigo Airlines to improve customer service and also avoid any unpleasant customer encounters with the company.

Answer:

23.5 Technology to Improve Customer Service

Customers today are more informed and more aware than they were in the past. For the same reason, they are also more demanding now. They expect high quality service enriched with supplementary services. They desire convenience and speed of delivery and that too at competitive prices. In these days of globalization, a customer moves across a country or the globe on official or personal work, but still expects his service provider to deliver quality service consistently. For example, he wants to use the same credit card for all his purchases and the same mobile phone service for all his communication needs, across the world. However, it is not so easy for the service provider to maintain the level and quality of services offered once the customer is physically away from the service provider. In such cases, it is the advanced technology that comes to the rescue of service providers. It helps them offer consistently high quality service to customers by overcoming all the barriers.

Example: Hyatt Installs Real-Time Guest Engagement Platform

Park Hyatt hotels and resorts offered refined residential-inspired luxury experiences in top-tier cultural destinations. More than 1,000 Hyatt properties were set to deploy Medallia Zingle's messaging platform in 2022. Through the installation, guests at these hotels were able to engage in real-time with on-property teams, with translation available in more than 100 languages via their preferred method of communication, including SMS text, in-app, web chat or social messaging apps such as WhatsApp. Medallia Zingle also facilitated on-site property teams' ability to engage with guests during their stay and respond to requests more efficiently.

In addition to the in-stay feedback provided through Medallia Zingle, Hyatt also incorporated:

- In-stay feedback at various touchpoints using Medallia digital.

- Ongoing daily colleague pulse surveys that enable real-time employee feedback at the property level.

- Surveys that provide insights into Hyatt's global property and guest services.

The guest feedback received feeds into other operational systems, providing insights to property-level team members and allowing them to identify opportunities for improvement and deliver best practices to guests.

Source: Hertzfeld, E. (February 3, 2022). Hyatt Installs Real-Time Guest Engagement Platform. Retrieved from https://www.hotelmanagement.net/tech/hyatt-installs-real-time-guest-engagement-platform. Accessed on 06-06-2022

23.6 The Customer Service Management Cycle

Improving customer service is a continuous and never ending process for an organization. Therefore, the customer service management function can be represented in the form of a continuous cycle. The various stages in this cycle include: understanding customers, establishing service standards, encouraging team work and customer orientation, establishing control systems and preventing problems rather than fixing them. Let us discuss these stages in detail.

23.6.1 Stage 1: Understanding Customers

In this stage, organizations seek to understand their customers' needs and desires so as to offer them the services they desire and value. To understand customers better, a service provider needs to think from the customer's perspective. He should ask himself several questions – what kind of service do they want, what process do they follow to select a service provider and purchase a service, what benefits do they expect from the service, what supplementary services do they expect and how do they perceive the service being offered and so on. He should then make a systematic analysis of the market, his customer base and his offerings

to answer these questions. These systematic efforts constitute Stage 1. Stage 1 requires organizations to follow certain steps like defining/redefining the services that they offer to customers, determining the characteristics or features of the service, developing the profile of the consumers and understanding their perception of the services and the service provider.

Selecting the target, defining the service and the users of the service

How can service marketers distinguish themselves from their competitors in the business? Some of them attempt to distinguish their services by emphasizing on quality, price, luxury, supplementary services, etc. For example, a leading hotel chain like the Oberoi group differentiates itself from small/local hotels by offering well furnished rooms, high quality service, luxury and comfort to customers. Some other service marketers identify the unmet needs of customers and attempt to satisfy them, thus creating a niche market for themselves. When service providers select a specific niche market, they need to research the market thoroughly to understand the requirements of customers. In the case of newly identified and targeted markets, though there may be no competitors initially, once customers begin to respond and the business picks up, other players may enter the field. Service providers should, therefore, continuously strive to understand customers' needs and improve their service package. Whether a service provider wants to serve the general market or a specific niche, he should first define the services he plans to offer, and the customers he wants to serve. The services should be defined from the perspective of the customer. For example, consider the example of a financial consultant. He and his team can record the requirements of customers and create a database of the different types of customers and their needs. They can seek the help of their existing clients in making the list more comprehensive. The list will enable the consultant to redefine the services of the organization. By making a note of customer details like their age, gender, hobbies, income, needs, etc., organizations can develop a comprehensive customer database. Based on this information and a systematic analysis, the management will be able to identify and attract its target segment and redefine its service offerings to suit their needs.

Determining the service characteristics

The perception of the service offered by the same service provider may vary from one customer to another. To understand the basis for such variations, service providers should basically understand the characteristics of services. These characteristics determine the quality of and perception about a service offering and its delivery.

The interaction between the service provider and the customer can be physical, mental or emotional and this has an impact on the customer. The location of service delivery, the time taken for service consumption, the technology used, the degree of flexibility and complexity involved, all affect the service offering. The proficiency of the service provider in case of special professional services

like medical or legal, the behavior of the service personnel and the number of customers serviced at a time also affect the service offering and its delivery. Therefore, organizations have to focus on all these service characteristics if they have to offer the right service to the right target segment.

Developing customer profile

When a service provider has defined the service he offers and determined the service characteristics, his next step is to collect as much information as possible about the customers. Based on this information, the organization can identify those customers with similar characteristics and group them as a different segment. The organization has to prepare a customer profile for each segment so as to serve customers better.

While developing a profile of customers, their preferences and expectations, social norms and habits, their attitudes, values and beliefs, should all be taken into consideration. This will help the management understand their target segment better and serve them better.

Understanding customer's perception of the service provider

Just as a service provider develops customer profiles, customers also try to develop a profile of service providers at an informal level. As the customer interacts with front office personnel to obtain some information or place the order for a service, he begins to evaluate the service offered by the service provider. Based on these evaluations, customers form their opinion about the service provider.

Customers form their opinion on the service provider and his service, based on the objective of the service, their own need for the service and its importance, and the outcome of the service. They also take into consideration their perceived risk and the relative cost and value of the service to evaluate it. These opinions eventually define the perception of the service and the service provider in the customers' minds.

23.6.2 Stage 2: Set Customer Service Standards

Service profiles developed by customers can be used by service providers to understand customers' expectations and establish customer service standards based on that understanding. The service standards should be clear, brief, achievable and measurable. By establishing service standards, service providers will be able to:

- Provide direction to their employees to serve the customers better
- Handle employee expectations as the standards are pre-determined
- Set the ground for recruiting the right people, training them and rewarding them
- Bring in uniformity and consistency in the organization

Singapore Airlines is an example of one such service organization that has high customer service standards.

There are two major dimensions of customer service – procedural dimension and personal dimension, which need to be standardized.

Standards in procedural dimension of customer service

Procedural dimension deals with the service delivery systems and is rational and systematic in nature. It involves the time taken for service delivery, the flow of different service components in terms of their coordination and the flexibility offered. It also involves anticipating customer needs, maintaining effective communication with the customers, establishing customer feedback systems and effective supervision and organization.

Standards in personal dimension of customer service

The personal dimension of customer service is the human side of the offering. It often involves customer emotions and perceptions and is, therefore, unpredictable in nature. It involves the appearance and body language of the service personnel, their tone of voice, their tact and selling skills and also their attentiveness and involvement in helping the customer make the right choice. This dimension also involves the ambience and atmosphere of service delivery.

Setting the standards in stone

As discussed earlier, customer service standards should be clear, brief, achievable and measurable. They should be communicated across the organization and every employee of the organization should understand and follow these standards of service. For example, if a company specifies timeliness as one of its customer service standards, it should be stated in clear terms. Domino's Pizza, for example, promises a home delivery within 20 minutes of the customer placing the order. So, its employees know that they have to deliver the pizza within that time limit. This is quite different from delivering 'quick service', which is a very ambiguous standard of timeliness.

To have an effective implementation of customer service standards, the following are necessary:

- The standards must be set in accordance with the organization's goals and objectives.

- Before determining the standards, the management should discuss them with employees and also with customers if possible and solicit their opinions and suggestions.

- The standards should be communicated to all the employees at all levels in the organization.

- The standards should be revised from time to time to ensure that they are in tune with the changes in the organization and the external environment.

23.6.3 Stage 3: Encourage Teamwork and Customer-Orientation among Employees

Customer-orientation and team work among all the service personnel are essential for organizations to serve their customers effectively. The management can achieve standards of excellence in customer service by following these steps:

- **Identify and analyze all the jobs in the organization that deal with customer service function:** The management of a service organization needs to first identify all the job positions that involve direct or indirect interaction with customers or support the front-line service personnel in delivering the service. For each of these positions, the management should conduct a job analysis and develop the job description and job specification. This will help the management finalize the tasks and duties of each position and identify the competencies required to perform each job effectively.

- **Recruit right candidates for the jobs:** The management then needs to screen the applicants for various positions carefully to select the best candidate for each job. The selection should be based on the job description and specification and the suitability of the candidate. The management should also take into consideration the organizational culture and analyze if the candidate will fit in with that culture. Recruiting the right service personnel is one of the most important steps in delivering quality customer service.

- **Train and develop the job incumbents:** Training should be administered to new candidates for a few days or weeks before they start working and interacting with the customers. This will help the incumbents understand what they are expected to do on the job and then prepare themselves to face the challenges. The candidates should be assessed after the training to check if they are equipped to meet the customer service standards. The management should periodically train its employees to help them develop their skills to match the changing customer needs and new technological developments.

- **Provide teams with able leaders:** Teams play a crucial role in delivering quality service to customers. For teams to thrive and exceed the expectations of customers, they should be led by able and competent leaders. The management should, therefore, take special care in selecting team leaders. It should also strive to develop good leaders from among its employees by nurturing their leadership skills.

- **Cultivate the right organizational culture:** Employees are the internal customers of any organization. The management should involve employees in decision-making and empower them to take decisions on their own. This will come in handy especially in situations where the quality of customer service may suffer in the absence of such freedom and authority. When the management is committed to serving its internal customers and addresses their needs and wants, they will be motivated to serve customers with a high level of commitment.

Example: Adobe Offers Robust Customer Service and Order Management Features

Adobe Commerce was the world's leading digital commerce solution for merchants and brands. Along with great tools for customers, Adobe Commerce also offered powerful backend tools for customer service representatives. When customers contact the team for help, they'll have the information and resources they need to handle their issue quickly and easily. These tools included:

- Order details, status, and cancellation – The Adobe Commerce Order Management System (OMS) allowed customer service representatives to quickly access information about order status and details. Customer service reps can easily modify or cancel orders as requested by customers.

- Shipping address modification – Providing that the order was not fulfilled, customer service agents can quickly and easily change shipping addresses. This allowed customers to get their order without having to cancel and re-order.

- Easily issue appeasements and refunds – Administrators can set permissions for customer service reps, allowing them to issue refunds, returns, and other appeasements. Automated refunds can even be set up for a streamlined customer service experience.

- Excellent extensibility – Adobe Commerce offered extensibility with other OMS tools through a variety of different APIs. If you would prefer a different OMS, integration into the Adobe Commerce backend was simple and straightforward.

Source: Chafetz, B. (July 21, 2021). The Top 5 Ways Adobe Commerce Helps You Improve Customer Service. Retrieved from https://www.121ecommerce.com/ resources/blog/the-top-5-ways-adobe-commerce-helps-you-improve-customer-service/. Accessed on 06-06-2022.

23.6.4 Stage 4: Establish Control Systems

Apart from understanding the customers, establishing superior customer service standards, and developing customer-orientation and team spirit among employees, the management should also establish proper control systems to ensure that employees meet the service standards and deliver the expected quality of service to customers. The control systems can be in the form of feedback from employees and customers or a formal service audit system to evaluate the performance of the organization.

The feedback forms should be simple and easily available to customers. This will encourage customers to express their opinions and suggestions for service improvement. Employees should also be encouraged to give feedback to the

management on service matters and the latter should value their feedback. In a formal service audit system, the management continuously monitors the service functions and compares the actual outcome (service quality) with the expected outcome. Any deviation will be traced to the factors leading to the deviation and an appropriate strategy will be adopted to eliminate those factors from the system. This will help the management control the damage and restore the service standards.

23.6.5 Stage 5: Prevent Problems Rather than Fixing Them

The management should concentrate on preventing problems rather than trying to fix them when they occur. When a problem occurs and a customer service team successfully resolves it, the whole process should be recorded and maintained for future reference. This will help the organization prevent such problems in the future and also speed up its service recovery system. Further, teams should be encouraged to identify problem areas and come up with possible ways of preventing or handling the problems. The best suggestions can be adopted by the management after a little experimentation and analysis. Employees can succeed in proactively solving service problems encountered in the course of customer service, only when they seek to understand the actual needs and expectations of the customers. Thus, the customer service management cycle once again moves on to the first stage of understanding customers.

Check Your Progress - 1

1. Which of the following function involves task-oriented activities (other than proactive selling), that involve interactions with customers in person to enhance customer satisfaction?

    a. Customer service

    b. Service recovery

    c. Relationship marketing

    d. Customer satisfaction

    e. Customer retention strategies

2. Which of the following is not a step to be undertaken by service providers to excel in delivering customer service?

    a. Track changes in the external environment

    b. Conduct periodic surveys

    c. Divide the basic service into separate service activities

    d. Provide necessary infrastructure and advanced technology

    e. Increase the number of steps and processes in accessing service

3. Which of the following is not a step to be undertaken by service providers in the customer service management cycle?

    a. Prevent problems rather than fix them

    b. Encourage teamwork and customer-orientation among employees

    c. Set customer service standards

    d. Establish reward systems

    e. Understand the customers

4. Which of the following stages in the customer service management cycle involves steps like selecting the target, defining the service and the users of the service, and determining the service characteristics?

    a. Setting customer service standards

    b. Understanding the customers

    c. Encouraging teamwork and customer-orientation among employees

    d. Profiling the target customers

    e. Setting service standards

5. Which of the following should service providers formulate and establish in a service organization to bring uniformity and consistency in customer service?

    a. Marketing orientation

    b. Customer focus

    c. Effective communication

    d. Customer service standards

    e. Strategic planning

23.7   Offering Supplementary Services in Addition to Core Service

An organization can enhance its customer service by offering supplementary services in addition to the core service. For example, the core service of a bank is to accept money deposited by the people and return it at the time of maturity with interest or to allow them to withdraw it when they need. However, a bank can enhance its services by offering some supplementary services like updating passbooks, offering debit cards and ATM services, offering Internet and phone banking facilities, offering demand drafts and travel check facilities, answering customer queries, etc.

> **Example: Tesla's Mobile Service Support**
>
> Tesla was known for sparking an electric vehicle revolution. It also brought services to customers, like mobile repairs and over-the-air tune-ups, that were once reserved for only the most elite car companies.
>
> *Contd....*

Tesla operated all of its own service centers. It was continuing to expand its fleet of mobile service vehicles so that it may service customer's cars when and where most convenient for them. If the service needs can be met by a mobile service technician, it was offered by mobile service option if it's available in the area.

Customers can schedule a service visit on Tesla app and service need will be reviewed. If the type of concern reported can be addressed by mobile service, the Tesla app will direct to pick a date and time and the address of where the service is to be performed. Otherwise, if a Service Center visit is more appropriate, customers will be prompted to pick a date and time and select the Service Center where they want the service to be provided.

Source: Evans, D. (February 8, 2022). Tesla Owns Its Service Centers A Unique Business Model That May Be Reaching Its Limit. Retrieved from https://www.cnbc.com/2022/02/08/tesla-owns-service-centers-pros- and -cons.html; https://www.tesla.com/support/mobile-service. Accessed on 06-06-2022.

Activity 23.2

Certain companies in the service sector need to provide supplementary services, in the absence of which, customers will find it difficult to make use of the core service. Cisco Travels, a tourist operator, intends to increase its customer base by introducing additional services. Discuss some supplementary services that Cisco Travels could introduce to enhance the value of its core services.

Answer:

23.8 Enhancing Customer Service through Improved Service Delivery Process

The characteristics of service and the factors that determine the quality of service differ from one industry to another. For example, the factors that determine the quality of an airline service are the take-off and arrival times, the behavior of the check-in and in-flight attendants, etc. A passenger wouldn't expect a wide variety of dishes to be served during the flight. However, the same person would expect a wide range of dishes to choose from when he visits a restaurant. Even within the same flight, the level of service delivered to the economy class travelers differs from that delivered to business class travelers. Therefore, an organization attempting to enhance its customer service should understand the factors that determine and influence the service delivery.

23.8.1 Factors Influencing Service Delivery

The various aspects of a service delivery process that influence the customer service function of an organization are discussed below:

- **Who sells the service?** In some service industries like insurance, travel and tourism, intermediaries play a major role in taking the service to the customers. Businesses in these industries depend on intermediaries because they have a wider reach and can, therefore, take the service to more customers. In some cases, the intermediaries will in fact, be able to offer higher quality customer service at lower cost, than the actual service providers. Many organizations, therefore, outsource the customer-contact function to firms specializing in that function. For example, a credit card marketer may outsource the customer-contact function to a BPO or an agency that specializes in marketing credit cards. In some industries like the retail industry and professional services like the medical services, there is no scope or role for intermediaries. Customers go directly to the service provider to hire the desired service.

- **Do service personnel need to interact with the customer often?** In services like the railways, telecommunications, mail delivery, etc., the interaction of the service provider with the customer is limited. The service process can be enhanced by improving service delivery processes using technology and management control systems. In service organizations like banks, hotels and airlines, service personnel regularly come in direct contact with customers. In this case, as the service personnel deliver service in the presence of customers, it becomes difficult for them to rectify a mistake without it being noticed by the customer. Therefore, recruiting the right people, training them and constantly enforcing the organization's values and commitment to customer service are the basic steps for a service provider to develop and enhance customer service.

- **Who hires the service?** A service organization can have both individuals and organizations among its customers. When an organization buys a service, it buys in bulk, when compared to individual customers. For example, an organization may take membership of a club for its 100 executives. The service provider must deliver the same quality of service to all the executives. Organizations also buy a service more frequently when compared to individual customers. For example, a corporate may require its executives to travel frequently to various cities on official duty. Therefore, it may use the services of an airline, a hotel and a car rental firm frequently and avail of discounts. In case of corporate customers, the service provider interacts not only with the customer who uses the services but also with the organization that hires them.

- **How long does the service delivery take?** Some services end with one interaction between the service provider and the customer while some services take several interactions. For example, if a customer visits a retail store and picks up some products, the service is complete when the customer leaves the store after the purchase. However, when a person goes to a health club and hires its services for some ailment or problem of his, he may be asked to visit the club for 10-12 sittings. Similarly, an IT firm may take several weeks to install a certain system in a client's organization. In situations where the services take a longer time for completion, the demand for information from customers increases. The service provider can enhance customer service by providing up-to-date information in a simple format for customers. For example, many organizations provide a list of questions and answers under FAQs (Frequently Asked Questions) on their websites, so that customers who have similar queries can obtain answers to their questions immediately. In the past, customers had to send the query to a customer service representative and wait for the reply.

- **How flexible is the capacity?** Some services can be provided to several customers at the same time, whereas some services require customers to wait for their turn. For example, a hotel with 50 rooms can accommodate 50 customers simultaneously. Customers can avoid waiting at the reception to book a room by making a reservation in advance or booking rooms online. To board a bus, train or a flight, passengers must stand in a queue so that everyone can get in one after the other and occupy their reserved seats. In beauty parlors and hospitals too, customers need to wait for their turn. However, in reputed parlors and hospitals, service providers estimate the time taken to serve each customer and accordingly allocate time slots to customers to minimize their waiting time.

- **How flexible is the service?** Some services lend themselves to high customization while some services cannot be customized beyond a point. For example, a fitness center suggests different exercises and different diets to different people depending on their individual requirements like gaining weight, losing weight, toning muscles, etc. In an educational institute, a student can choose from among the various courses offered by it. But to obtain a certificate in a certain professional course (say, aeronautical engineering), a student must study all the subjects specified for that course and pass in all of them. He cannot study one subject from one course (aeronautical engineering) and another from another course (say, geology) and obtain the desired certificate. Moreover, all the students who study the same course attend the same class and the professors deliver the same lecture to the entire class. Individualized lectures are not delivered to each student. There will not be differences in the level of service offered to individual customers.

- **How frequently is the service purchased?** Some services are purchased more frequently and the profitability of the service provider in such cases depends on the repeat purchases made by the regular customers. For example, restaurants, hotels, airlines, credit cards and retail outlets come under this category of services. Organizations offering these services need to maintain a database of regular customers and their purchase patterns. When regular customers enter the organization for service, service personnel should give them special treatment and attention and enhance their overall service experience at the place. If a regular customer uses an online channel, the information system should immediately recognize him, accept his orders and process his transactions. Since a regular customer's data is already in the system, there should be no need for the customer to enter all the personal details each time he uses the organization's service.

- **How complex is the service?** Some services are complex, and it may take a long time for customers to learn to use them effectively. Customers may initially face some problems and may require the help of the service personnel in resolving them. By training the service personnel to respond to customer queries and to resolve their problems by extending all the necessary support, service providers can enhance delivery of the service.

- **What is the extent of risk involved?** In some services, failure to deliver the service as promised may result in inconvenience, monetary loss or other problems to customers. For example, if a courier company fails to deliver an important office document to a customer's client, it might lead to major problems for the customer, as well as his client. Service organizations should have robust infrastructure and information system in place to deliver the service as promised. If it fails to deliver the service in the first instance, service personnel should initiate service recovery and resolve the problem at the earliest. When a service provider fails to deliver the service, the frustrated customers may react angrily and behave aggressively with the service personnel. The service personnel should, therefore, be trained to maintain their patience and deal with the problem tactfully.

Example: JetBlue - Thank frequent customers with small gestures

Paul Brown was flying JetBlue airlines when he casually tweeted that he couldn't grab his Starbucks coffee before boarding the plane because he was flying out of the smaller terminal at Boston's Logan airport. Within seconds of seeing the tweet, JetBlue sprang to action and the airport customer service reps delivered a Starbucks venti mocha to his seat on the plane. Brown was elated and raved about JetBlue on Twitter.

Contd....

This was definitely one of those great customer examples other companies can learn from. The main takeaway? Your customers don't always need large gestures, but just want to know they're appreciated. In fact, 68 percent of customers leave because they perceive you don't appreciate them.

Source: Kaemingk, D. (September 30, 2020). 11 Examples Of Companies Delivering Great Customer Service. Retrieved from https://www.qualtrics.com/blog/ customer-service-examples/. Accessed on 07-06-2022.

23.9 Steps to Implement an Effective Customer Service Program

The goal of service organizations is to achieve high customer satisfaction because this is what holds the key to customer retention and loyalty. Service organizations can achieve high customer satisfaction only when their service personnel deliver customer service effectively. An organization needs to take the following steps to implement effective customer service program:

- **Place the right person in the right job:** The management of a service organization should conduct comprehensive recruitment tests and select the best candidate for each job. Different jobs require different skills like technical skills, interpersonal skills, communication skills, etc. Some jobs require a combination of some of these skills. Organizational personnel who interact with the customers directly should be able to withstand the work pressure and control their emotions. So, the management should use some personality tests for assessing the candidates and selecting the right people. Choosing the wrong person for a job could have negative outcomes. Because the job isn't a good fit the person may eventually leave the job.

- **Administer training programs:** The management should try to identify the training needs of employees and conduct training programs periodically to help them hone their skills and excel in customer service.

- **Serve information needs of customers:** Customers also need to be kept informed of any changes made in the service delivery system. An informed customer will know better how to use the service quickly and effectively. This will help avoid delays at the service site and reduce inconvenience to customers. For example, Barnes and Noble sends an order confirmation after the order is placed. Another e-mail is sent to the customer to let him/her know that the book is ready and waiting to picked up from the counter.

- **Resolve problems quickly and talk pleasantly:** Employees should be attentive while interacting with customers. When a customer reports a problem, the front office personnel should immediately take the necessary action. In case of minor problems, they should initiate corrective action immediately and in case of major problems, they should take up the case with the manager concerned. They should also be tactful in pacifying irate customers. Peaceful customers can be more easily dealt with, than aggressive

and unpleasant ones. Therefore, employees will be subjected to less stress and can respond to more customers if they help their customers calm down. However, employees should also remember that sweet talk alone cannot please a customer for long, and that his/her problem needs to be solved at the earliest.

- **Standardize service delivery mechanisms:** A service delivery process can be split up into a set of steps that are carried out in a sequence to deliver the desired service. Each step should be evaluated to identify the possibility for standardization. All such steps should be standardized, and the employees should be trained to carry out the steps quickly in a systematic way and deliver satisfactory service to customers.

- **Fix reasonable prices:** A service provider must price his services reasonably. He should compare the quality and level of the services he offers with those of competitors in the industry and then determine the price of his service. The service provider should constantly monitor the external environment, the existing demand and supply for his services and make changes in the price accordingly.

- **Outsource some activities:** Service providers should identify the activities that are not an integral part of the core service. If they find that these activities can be performed by external organizations at a low cost without affecting the quality of customer service, then such non-core activities should be outsourced.

- **Attempt to prevent problems:** Service providers should observe the service delivery mechanism and identify the problem areas. They should then take the steps necessary to eliminate the factors leading to problems and enhance the customer service.

- **Evaluate employee performance:** The performance of service personnel should be appraised periodically, and the feedback should be discussed with the concerned employee. The achievements of an employee should be rewarded. At the same time, if there are any areas for improvement, his/her superior should communicate them to the employee and help him/her upgrade his/her performance.

Example: Zappos, the Customer Loyalty Team (CLT)

At Zappos, the Customer Loyalty Team (CLT) members were specially trained to make sound decisions on their own by taking ownership of each call's experience, and any adverse issues the customer expresses. The company enabled its representatives to best adjust to the needs of its customers by bestowing them management level decision-making power.

Contd....

For example, all Zappos customer service representatives have the authority to accept special-case returns, offer partial or full refunds in cases of loss of service, pay for damages, and "WOW" customers to provide solutions in any other manner they deem appropriate.

Source: Warren, R. (April 17th, 2020). 10 Things To Know About Zappos Customer Service. Retrieved from https://www.zappos.com/about/stories/customer-service-things-to-know. Accessed on 07-06-2022.

Check Your Progress - 2

6. Which of the following functions is not favourable for effective implementation of customer service standards?

   a. The standards must be set in accordance with the organization's goals and objectives

   b. Before determining the standards, the management should discuss them with employees

   c. The standards must be based on feedback and suggestions given by customers.

   d. The standards should be communicated to all employees

   e. The standards devised once should be strictly followed even if there are some changes in the organization and the external environment

7. When customer expectations regarding service quality, value and price are met, which of the following is created?

   a. Service quality

   b. Planning efficiency

   c. Customer satisfaction

   d. Brand loyalty

   e. Customer service

8. Identify the most suitable step that a service provider needs to adopt in achieving standards of excellence in customer service.

   a. Identifying and analyzing all the jobs in the organization that deal with customer service function

   b. Take steps to promote the service through aggressive marketing tactics

   c. Recruiting the right candidates for the jobs, training and developing them

   d. Providing teams with able leaders

   e. Cultivating the right organizational culture

9. Which of the following aspects has least influence on the customer service function of an organization?

   a. The post purchase behavior of customers

   b. The service provider who sells the service

   c. The time taken by the service delivery to take place

   d. The flexibility of the capacity and the service

   e. The extent of risk involved

10. Which of the following actions is not a suitable step to implement an effective customer service program?

   a. Administering training programs

   b. Placing the right person in the right job

   c. Servicing information needs of customers

   d. Resolving problems slowly and talking pleasantly

   e. Standardize the service delivery programs

23.10 Summary

- Customer service may be defined as a process in which an organization consistently offers what the customer wants.

- To improve customer service, organizations should divide the existing service into different service activities and set service standards for each activity, conduct customer surveys periodically, provide the necessary infrastructure and advanced technology, monitor changes in the environment, and introduce changes in the service delivery process of the organization.

- Today's organizations are leveraging on technology extensively to improve their customer service.

- Improving customer service is a never-ending process for an organization. Itis represented in the form of the customer service management cycle.

- The various phases of this cycle include understanding customers, establishing service standards, encouraging teamwork and customer orientation, establishing control systems and preventing problems rather than fixing them.

- Many organizations offer several supplementary services in addition to their core service, to enhance the overall experience of the customer.

- Organizations can also enhance customer service by improving the service delivery process.

- Improvement of the service delivery process of an organization depends on various factors like who sells the service, whether service personnel need to interact with the customer often, who hires the service, how long the service takes, how flexible the service provider's capacity is, how frequently the service is purchased, how complex the service is, and what is the extent of risk involved.

- The steps that have to be followed by organizations to implement an effective customer service program in the organization include: placing the right person in the right job, administering training programs, serving the information needs of customers, resolving problems quickly, standardizing service delivery mechanisms, fixing reasonable prices for services, outsourcing some activities, attempting to prevent problems, and evaluating employee performance.

23.11 Glossary

Customer Expectations: Based on previous expectations with the company and promises made by the company, customers have expectations about the level and quality of products that they should receive from the company.

Customer Experience: Customer's perceptions about the service experience across various touch-points.

Customer Insight: An insight into why customers behave in a particular way while choosing and purchasing products.

Customer Service Management Cycle: The various stages like understanding customers, establishing service standards, encouraging teamwork and customer orientation, establishing control systems, and preventing problems rather than fixing them constitute customer service management cycle.

Customer Service: It is the ability of an organization to constantly and consistently give customers what they want and need.

Customer-Centric Organization: These organizations which are customer focused. They formulate strategies, establish policies, procedures, reward systems to deliver excellent customer service.

23.12 Self-Assessment Test

1. Customers select a service provider depending on several parameters, of which customer service is the most important. Define customer service. In what ways can customer service be improvised upon? Explain the customer service management cycle.

2. "An organization can enhance its customer service by offering supplementary services in addition to the core service and/or by improving the service delivery process." Explain this statement.

3. Service organizations can achieve high customer satisfaction only when their service personnel deliver customer service effectively. What steps does an organization need to take in order to implement an effective customer service program?

23.13 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.

23.14 Answers to Check Your Progress Questions

1. **(a) Customer service**

    Customer service involves task-oriented activities, other than proactive selling, that involve interactions with customers in person, by telecommunications, or by mail. This function should be designed, performed, and communicated with two goals in mind: customer satisfaction and operational efficiency. In simple words, customer service is the ability of an organization to constantly and consistently give customers what they want and need.

2. **(e) Increase the number of steps and processes in accessing service**

    When customers must go through a number of steps and processes to access service, they get frustrated. This works negatively and reduces customer satisfaction with the service. The activities stated in other options (a) divide the basic service into separate service activities; (b) conduct periodic surveys; (c) provide necessary infrastructure and advanced technology; and (d) track changes in the external environment enable excellent customer service.

3. **(d) Establish reward systems**

    Improving customer service is a continuous and never-ending process for an organization. Therefore, the customer service management function can be represented in the form of a continuous cycle. The

various stages in this cycle are understanding customers, establishing service standards, encouraging teamwork and customer orientation among employees, establishing control systems, and preventing problems rather than fixing them. Establishing reward system (option 'd') is not a stage in the customer service management life cycle.

4. **(b) Understanding the customers**

   In the first stage of the customer service management cycle, organizations seek to understand their customers' needs and desires to offer them the services they desire and value. To understand customers better, a service provider needs to think from the customer's perspective. Stage I requires organizations to follow certain steps like defining/redefining the services that they offer to customers, determining the characteristics or features of the service, developing the profile of the consumers, and understanding their perception of the services and the service provider.

5. **(d) Establishing customer service standards**

   By establishing service standards, service providers will be able to provide a direction to their employees to serve customers better, handle employee expectations as the standards are pre-determined. Also, there is a greater uniformity and consistency in the organization.

6. **(b) The standards devised once, should be strictly followed even if there are some changes in the organization and the external environment**

   All the options are true regarding the requirements for the effective implementation of customer service standards, except option 'e'. The customer service standards should be communicated across the organization, and every employee of the organization should understand. It should be aligned with the goals of the organization and the standards should be based on the suggestions and feedback given by customers and employees. Only option 'e' which states that standards should be followed even if external and internal environment changes, is not valid. On the contrary, the service standards should be periodically revised.

7. **(c) Customer Satisfaction**

   When customers are happy with the quality of service, value provided for price, there is high level of customer satisfaction.

8. **(b) Take steps to promote the service through aggressive marketing tactics**

   In the third stage of the customer service management cycle, organizations should encourage teamwork and customer-orientation

among employees. This can be done by following these steps - (a) identifying and analyzing all the jobs in the organization that deal with the customer service function (b) recruiting the right candidates for the jobs (c) training and developing the job incumbents (d) providing teams with able leaders and (e) cultivating the right organizational culture. The odd function which is not helpful in maintaining high quality service standards is option 'b', which is using aggressive marketing tactics to promote the product.

9. (a) **The post purchase behavior of customers**

The various aspects of a service delivery process that influence the customer service function of an organization are aspects like: Who sells the service?; Do service personnel need to interact with the customer often?; Who hires the service?; How long does the service delivery take?; How flexible is the capacity?; How flexible is the service?; How frequently is the service purchased?; How complex is the service?; and What is the extent of risk involved?. Option 'a', 'Post purchase behavior of customer' is not relevant here.

10. (d) **Resolving problems slowly and talking pleasantly**

An organization needs to take the following steps to implement an effective customer service program - place the right person in the right job; administer training programs; serve the information needs of customers; resolve problems quickly and talk pleasantly to the customers; standardize service delivery mechanisms; fix reasonable prices; outsource some activities; attempt to prevent problems; and evaluate employee performance. Option 'd' delays solving of problems, and hence, it will frustrate customers.

Unit 24

Globalization of Services

Structure

"Information technology has been one of the leading drivers of globalization, and it may also become one of its major victims."

- Evgeny Morozov, an American writer, researcher, and intellectual from Belarus who studies political and social implications of technology

24.1   Introduction

As mentioned in the quote, information technology plays a major role in globalization as it affects all facets of the world economy including services. The evolving new economy with the help of IT is digital economy that plays a significant role in providing services to customers.

In the previous unit, we discussed customer service function. In this unit, we will take a look at the globalization of services.

For a long time, it was believed that services could not be marketed globally. Since services required direct interaction between the customer and the service provider, it was believed that geographic and cultural barriers would not allow organizations to deliver services globally. However, the advances in communications, transportation, and information technology have ushered in a

new era of services marketing the world over. Along with the technological advancements, some political, social, and legal changes across the world have also made globalization of services possible. For example, we see many organizations from across the world outsourcing their business processes to countries like India, the Philippines, and China.

This unit will discuss the various factors leading to globalization of services, and the different modes chosen by organizations to enter foreign markets. We shall then move on to discuss the challenges faced by organizations in the global markets, and the strategies they use to overcome the challenges and succeed in these markets. An economy which is based on digital computing technologies is known as digital economy. It is perceived as conducting business through markets that function through 'world-wide web' and internet. E-Commerce, a related term refers to buying and selling of products through internet. The unit covers the new digital economy and 'E-Commerce', which is buying and selling of products through internet and mobile internet.

24.2   Objectives

After studying this unit, you should be able to:

- Analyze the growth in global service markets
- Recognize the factors influencing globalization
- Explain the overseas market entry decisions
- Assess the level of globalization of a firm
- Discuss the challenges in the global market
- Explain the factors influencing success of global firm
- Evaluate the prospects for the global marketing of services
- Analyze and study the new digital economy and e-commerce

24.3   The Growth in Global Service Markets

Globalization refers to the free movement of goods, services, people, capital and technology across various countries in the world. For centuries before World War I, when markets were open, people, goods and capital traveled across borders. European traders traveled regularly to Asia and procured valuable goods to be sold in their countries for a profit. However, later, markets in different countries tried to protect themselves by imposing heavy tariffs on cross-border trade. As a result, world trade suffered and the world market shrank in size. After World War II, more and more countries used tariff and non-tariff barriers to make it even more difficult for foreign traders to cross borders. This led to a significant decline in international business and trade was confined to within the country borders or with immediate neighbors.

In the past few decades, many countries have realized the need to reduce tariffs and facilitate trade across borders for their benefit. Such countries have come together to form an international body called the World Trade Organization

(WTO). The member-countries conduct periodic talks and agree to reduce tariffs in a phased manner. To this effect, they have signed the General Agreement on Tariffs and Trade (GATT), called the General Agreement on Trade and Services (GATS). As a result, international business is flourishing again with goods, capital and people traveling across countries. The agreement has facilitated the trading of services across borders.

As mentioned earlier, technological developments have also played a vital role in reducing the effects of natural barriers like geographic distance. The cost of information processing and communication has come down significantly in the last few decades, accelerating the pace of globalization. The latest developments in optical fiber technology, videophone and teleconferencing facilities have made it possible to conduct business transactions without the transacting parties to be physically present. This convenience coupled with reduced expenses has encouraged organizations to establish operations in various countries across the globe. They can now use the technology to control the business, develop coordination and leverage synergies among the subsidiaries spread across the globe.

Initially, it was only the manufacturing organizations that took advantage of globalization and developed their business. Gradually, however, service organizations also entered the arena. The share of services in world trade has increased significantly over the years. According to an UNCTAD (United Nations Conference on Trade and Development) report, service industries account for more than 50% of FDI (Foreign Direct Investment) flows. McDonald's, Pizza Hut, Standard Chartered Bank, British Airways, Oracle, and Microsoft are some of the service organizations which have their operations spread across the world. Many Indian IT companies like Infosys, Wipro, and TCS have become global players. The Taj Group is an international player with its hotels in major cities like London.

In the following section, we will discuss the factors that have contributed to the growth of globalization.

Example: Google – One of the World's Largest MNCs

Google Inc. was an American multinational technology corporation, which involved in internet-related services and products. The number of Google offices around the world exploded as its global influence had increased. As of Jan. 2021, there were 69 Google locations in the U.S. and Canada, including the global headquarters in Mountain View, Calif., that's called the Googleplex; eight in Latin America; 40 in Europe, including what the company calls its EU HQ in Dublin; 28 in the Asia-Pacific region, including the A-P headquarters in Singapore; and seven in Africa and the Middle East.

Source: Farfan, B. (February 19, 2021). Google's Global Headquarters and Offices Around the World. Retrieved from https://www.thebalancesmb.com/google-headquarters-offices-2892790. Accessed on 08-06-2022.

24.4   Factors Influencing Globalization

Many factors drive globalization. In the Indian scenario, the economic reforms that were introduced in 1991 have paved the way for the free flow of goods and services across the borders. This has benefited the country in many ways, such as creating new business opportunities like in the area of business process outsourcing. Some of the changes that have boosted globalization worldwide include:

- Changes in social factors

- Changes in technology

- Changes in political and legal conditions

- Competition in the market

- Competitive advantage

24.4.1 Changes in Social Factors

Today, people in one country know more about people in other countries, their culture, lifestyle, food habits, etc. because of their exposure to the media as well as personal experience gained by traveling to those places. We can see that the needs and wants of people across the world are converging, at least in a few service areas. For example, people in the East enjoy western music, while the West relish the cuisines of India and China. Apart from visiting new places on a holiday, people also travel across the world for higher education, research, and jobs. Business people from all over the world expect similar facilities and services on flights and in hotels. With homogenization of tastes and preferences of customers across the world, though to a limited extent, service providers are finding it easier to offer their services on a global scale. Though this homogenization is superficial, it offers opportunities for local players to go global.

24.4.2 Changes in Technology

Advances in technology have made it possible for even high contact services like healthcare and technical support to be offered to remote customers. For example, if a client based in the US faces a problem with the application installed by a software solution provider from India, the latter can access the client's system and rectify the problem through a server. Similarly, a specialist surgeon can guide another surgeon operating on a patient, virtually from anywhere in the world. This is an advanced form of telemedicine, which enables patients to consult doctors online and be treated. For example, a senior surgeon at London Health Sciences Centre (LHSC) guided surgeons performing a heart surgery at LHSC from a far-off location.

24.4.3 Changes in Political Conditions

In some countries, political changes have facilitated globalization of services. In China, strict communist principles were followed until the 1970s. The government owned most of the assets and organizations in the country. There were strong restrictions on the inflow of foreign goods and services. However, the political leaders of the '70s recognized the need for a policy change and lifted the restrictions on trade, facilitating a free flow of goods and services. Russia (erstwhile USSR), was also a staunch communist country. However, it underwent some major changes during the tenures of Michael Gorbachev and Boris Yeltsin to discover its economic strengths. India too, with the introduction of economic reforms in 1991, became a global economy and a force to reckon with. With more and more economies opening their gates to the free flow of goods and services across borders, the world has become a unified global market.

24.4.4 Competition in Market

Within a country, there may be intense competition among the domestic players, forcing some of them to venture outside in search of better fortunes. When there is no scope for any expansion within the country, a service provider may seek opportunities in other countries in order to utilize its unused potential. It identifies new markets that have a potential demand for its services and exploits the opportunity.

24.4.5 Competitive Advantage

Intense competition in the market forces service providers to develop competencies that give them a competitive advantage over others. In addition, service organizations need to offer superior quality services at attractive prices to customers. To have a competitive cost advantage, companies try to cut down on the cost of operations by choosing places where the cost of production is minimized. They look for places where there is an abundant supply of people with the desired skills and the cost of labor and other services is lower. Therefore, organizations have their headquarters at one place, some operations at another and a few others at yet another place. And this leads to globalization.

Many IT firms like IBM, Microsoft, Dell, and Oracle have set up their operations in India, because of the availability of skilled people and the infrastructure and support offered by state governments. GE has customer service, technical support and data processing operations in India.

24.4.6 Regulations in Home Country

Sometimes, too many regulations imposed by the government in the home country encourage national players to set up operations in countries where such regulations do not exist. India had a strong licensing system in place after

independence. As a result, no Indian company could start any new business, if it was over a certain size. As a result, innovative businessmen like Aditya Birla opened companies in countries like Malaysia and Thailand. Thus, the Birla company became one of the first global companies from India.

24.4.7 Lack of Demand in Home Country

Sometimes, organizations may find that the demand for their services within their own country is either non-existent or too low to gain enough of a margin. For example, IT firms in India like Infosys and Mastek concentrated on the global market in their initial stages primarily because Indian companies did not come forward to purchase the advanced IT solutions that they offered.

Example: Indian Spices Industry Getting Spicier On Growing Demand

Indian spices reach 180 countries while the main importers included the US, UK, Germany, France, Italy, Canada, Australia, UAE, Iran, Singapore, China and Bangladesh, among others. Indian spices were the most sought-after globally, given their exquisite aroma, texture, taste and medicinal value. India had the largest domestic market for spices and dominated the sector as the world's largest producer, consumer and exporter of spices.

Early in 2022, in a message to the Spices Board, Piyush Goyal called for the industry to double the sector exports to $10 billion in the next five years. The spices exports increased by 115 percent in volume and 84 percent in value (USD) between 2014 and 2021. It touched a historic high of $4.2 billion in 2020-21. Indian spices and spices products were reaching over 180 destinations all over the world..

Source: (7 June, 2022). Indian spices industry getting spicier on growing demand. Retrieved from https://www.thehansindia.com/business/indian-spices-industry-getting-spicier-on-growing-demand-747341. Accessed on 08-06-2022

24.5 Overseas Market Entry Decisions

Different organizations enter different markets for different reasons and in different ways. Some of the modes of entry chosen by organizations to venture into foreign markets include exporting, taking up turnkey projects, licensing, franchising, getting into joint ventures, and starting a wholly-owned subsidiary. Each of these methods has its own advantages and disadvantages. The choice of a company depends on a variety of factors including the nature of the particular product or service and the political, social and competitive scenario in the target market.

24.5.1 Exporting

Most firms begin their global expansion operations with exports. During the 1990s, the volume of exports in the world economy increased significantly due to

the demolition of trade barriers in many countries. However, exporting services remained a challenge owing to their inseparability characteristic. Firms planning to export goods/services must identify opportunities in the foreign market, familiarize themselves with the mechanics of exports and learn to deal with the foreign exchange risk.

Firms can avoid the investment required on technology, infrastructure, and manpower in the host country by adopting the channel of exports. For example, an IT firm in India can export the services of its software engineers to overseas customers.

Exporting benefits firms by enabling them to enter foreign markets at minimum cost. It reduces the dependence of an organization on market demand in the home country. It also protects the business from being adversely affected by seasonal fluctuations in the local market. A firm can utilize its excess or unused potential to serve the foreign markets. However, exporting has its disadvantages too. An exporter has to customize his promotional material to suit the foreign market. He may even have to customize the product/service. He has to bear the additional costs involved in exporting, like shipping costs, and the traveling costs of personnel for making sales calls, trouble-shooting, etc. Earlier, the exporter may have had to wait longer for payments from customers abroad. However, this is no longer a handicap in this world of electronic monetary transactions. Under special circumstances, the exporter might need to spend heavily on customs clearance, export licence, etc.

24.5.2 Turnkey Projects

In a turnkey project, the contractor handles every aspect of the project for a foreign client, from the planning and inception stage to completion and handover. At the completion of the contract, the system or plant is handed over to the foreign client. Turnkey projects are common in the IT, chemical, pharmaceutical, and petroleum refining industries.

The main advantage of turnkey projects is the high financial returns from the built and installed assets. Turnkey projects are useful in cases where the Foreign Direct Investment (FDI) is regulated by the host government. For example, many oil rich countries in the Middle East decided to invest and build their own petroleum refining industry, thus restricting FDIs in their oil and refining sectors. However, since many of these countries did not have the technological knowhow for petroleum refining, they entered into turnkey projects with foreign firms that had the technology. Thus, foreign firms exported their process technology to the host country. Turnkey projects are desirable in countries where the political and economic environments do not favor long-term investment.

The disadvantage of turnkey projects is that firms that enter into a turnkey deal have no long-term interest or stake in the foreign country. In addition, firms that take up turnkey projects for a foreign enterprise may be creating a competitor. For example, firms that exported the oil refining process technology to countries like Saudi Arabia, Kuwait and the Persian Gulf countries found themselves competing with companies from these countries in the world oil market. In the process of selling the process technology, a firm might also be selling its competitive advantage to potential competitors.

24.5.3 Licensing

Licensing is an arrangement through which an organization (licensor) grants the rights to intangible property like patents, inventions, formula, process, designs, copyrights and trademarks to another company (licensee) for a specified period. The licensor in return receives a royalty fee from the licensee for the rights. For example, an organization may transfer its technical expertise to another organization for a specific time, in return for a royalty fee.

Licensing offers many advantages to a small business, such as rapid entry into foreign markets and virtually no capital requirements to establish manufacturing operations. For example, Microsoft offers licenses to organizations across the world to use their applications and charges a fee for it. In case of licensing, organizations are able to make profits quickly because they do not make any investment on establishing facilities and building infrastructure. They simply allow the licensee to operate and offer services using their brand name in return for a royalty.

The disadvantages of licensing are that the licensor might lose control over service processes and marketing. More importantly, the licensee may become a competitor if too much knowledge and know-how is transferred. Adequate control is necessary to protect trademarks and intellectual property. One way to help ensure that the licensor's intellectual property is protected is by securing a recognized patent and trademark registration. When a license is granted, the licensor may ask the potential licensee to sign a confidentiality and non-disclosure agreement barring the licensee from manufacturing the product/service himself, or leaking the knowledge to third parties. The catch here is that such agreements should not contravene the laws of the host country. Patent rules vary from country to country, so it is important to consult an expert international patent and trademark attorney before entering into any licensing agreement.

24.5.4 Franchising

Franchising is similar to licensing except that it requires a long-term commitment on the part of both the franchisor and the franchisee. In franchising, the franchisor allows the franchisee to use its intangible property like the brand name and the operating procedures, but insists that the franchisee follows the standards and

rules of the business specified by it. The franchisor has an important role to play in a franchise business in terms of marketing and promoting the service as well as training and supporting the franchisee employees. The franchisor receives a royalty payment that is usually a percentage of the franchisee's revenues.

With the franchising strategy, a service firm can build a global presence faster and cheaper and lower its financial and operational risks. Subway India, with a total of 660[16] (July 2019) restaurants in India is the largest Quick Service Restaurant' (QSR) in terms of number of restaurants. Over 400 franchise partners (as of 2019) own all of Subway's restaurants in India. Ranjith Talwar, Country Director, South Asia, Subway, in an interview to *the Hindu-Business line* said that since 2015, the company has witnessed double digit growth rate. Subway, which is chasing growth in India plans to have around 1000 stores in India by 2021. The rapid expansion that Subway has witnessed could be attributed to the franchise-route expansion.

24.5.5 Joint Ventures

In contrast to licensing and franchising arrangements, joint ventures allow companies to own a stake and simultaneously play a role in the management of foreign operations. Joint ventures require more direct investment, training, management assistance and technology transfer. For example, in India, many joint ventures exist between global insurance firms and Indian banks. There are joint ventures between ICICI Bank and Prudential Insurance; Vysya Bank and ING Insurance and the GMR Group; and HDFC and the Chuub Corporation (global non-life insurer).

Joint ventures can be of two types – equity and cooperative. In an equity joint venture, each party gets profits in proportion to the amount of capital contributed by it. In a co-operative joint venture, profits can be allocated depending on the agreement between the partners. In some countries, a joint venture is the only way for a foreign company to set up operations in the host country. For example, in India, until the economic reforms were introduced in 1991, many foreign firms were operating in the country only through joint ventures.

Joint ventures help a firm benefit from the local partner's knowledge of the host country's culture, language and political systems. In addition, a firm can share the costs and risks of opening and running a new business with its local partner. One of the major drawbacks of joint ventures, especially in cases where the foreign company's equity is limited to 49 percent, is the loss of effective managerial control. This can result in increased operating costs, substandard product quality, reduced profits etc.

---

[16] https://www.thehindubusinessline.com/companies/qsr-chain-subway-looks-to-expand-india-footprint/article28691623.ece#

Example: Microsoft and General Electric's Joint Venture

Technology giant Microsoft and world energy leader General Electric (GE) created a joint venture aimed at using data to improve healthcare quality and patient experience. The venture, named Caradigm, was probably one of the most famous examples of joint ventures. Its premise was to bring together Microsoft's strengths in creating large-scale data platforms with GE's experience in developing healthcare applications, to form a child company that would be able to act more nimbly than either of the parent companies.

Source: Beech, I. (April 22, 2021). 6 Famous Joint Venture Examples. Retrieved from https://breezy.io/blog/joint-venture-examples. Accessed on 08-06-2022.

24.5.6 Strategic Alliance

A strategic alliance is an understanding or agreement among the players in a market. Firms form strategic alliances to expand to new markets, gain quick access to new technology, extend the product portfolio or avoid competition. In this case, the partnership can last for a fixed tenure, depending on the agreement between the parties involved. Strategic alliances may or may not involve financial commitment. The partners work together on predetermined goals and objectives, and are free to separate once these goals are achieved or when the agreement ends.

24.5.7 Wholly Owned Subsidiaries

In a wholly-owned subsidiary, the corporate owns 100% equity in the local subsidiary. Wholly owned subsidiaries can be established in a foreign country in two ways. A firm can set up new operations in the foreign country or it can acquire a local firm with an established business and promote its own products through that firm.

A wholly-owned subsidiary is the preferred mode of entry into foreign countries for firms with strong financial muscle and technological competence. A wholly-owned subsidiary allows an organization to have tight control over operations, which is not possible in the case of licensing and franchising. The firm also does not risk letting go of its competitive advantage. However, a wholly-owned subsidiary calls for huge investments and the company has to bear the complete risk while learning from its own experiences.

24.5.8 Mergers and Acquisitions

Mergers and Acquisitions (M&As) are also one of the avenues for service organizations to enter foreign markets. M&As became quite popular in the '90s as more and more MNCs expanded their operations across different countries. In a merger, two organizations come together as one, with mutual consent, in a view

to synergize their operations and gain more. However, in the absence of effective planning and management, mergers fail to realize the expected benefits. It is important for two merging firms to have some synergies and common features that strengthen the merger. In an acquisition, one organization buys out another organization using its financial strength and negotiation skills. Some acquisitions can be hostile, and some, friendly. Acquisition enables organizations to enter foreign markets with ease as they are spared the effort of establishing a new business unit, recruiting and training staff, and attracting clients.

However, the new management (after the acquisition) might have to face the challenges associated with differences in the corporate cultures of the acquired firm and the acquiring firm. In addition, there may be a decline in productivity after acquisition owing to uncertainty and apprehensions among employees. It is a daunting task for the management to restore confidence in the employees and maximize their productivity.

24.5.9 Piggybacking Method of Entry

In this method, an organization takes the help of another organization to market its products/services in a foreign market. The piggybacking method is used by organizations as a method of entry for various reasons. The organization which carries the product/service into the foreign market through its channel, is called the carrier. The organization that uses the partner's channel is called the rider. When an organization believes that it has a product/service that has immense potential in the new market, but does not want to risk investing large amounts in building the distribution channels, it goes in for the piggybacking method of entry. The partner organization (i.e., the carrier) agrees to the arrangement when the product/service offered by the rider complements its own products/services and enhances its growth. Sometimes, the carrier may even offer its brand name to the rider's products/services. This, in turn, may help in quick acceptance of the new products/services. If the rider's services are well received by customers, the carrier's image will also be enhanced and its own business may grow. The carrier may also help the rider by taking the responsibility for promotion and pricing of products/services. The rider can gain access to information on the foreign market and target customers, without actually entering the market.

Piggybacking also has its set of disadvantages. In some cases, the carrier may not focus as much on the marketing of the product/service of the rider as he does on its own products/services. In cases where the product/service of the rider is a hit with the customers, the carrier might attempt to offer it on its own or acquire the rider's firm. In addition, as the rider does not interact directly with customers, it may fail to have access to necessary information to improve its offering or introduce new products/services to meet customer needs.

Check Your Progress - 1

1. Identify the type of contract that requires the contractor to handle every aspect of the project for a foreign client – from the planning and inception stage to completion and hand over of the project.
   a. Licensing
   b. Turnkey project
   c. Strategic alliance
   d. Franchising
   e. Collaboration

2. Which of the following is true about the piggyback method of market entry strategy?
   a. In this method, an organization takes the help of another organization to market its products/services in a foreign market
   b. The organization which carries the product/service into the foreign market through its channel is called the rider
   c. The organization that uses the partner's channel is called the carrier
   d. The rider interacts directly with customers
   e. The rider has access to necessary information to improve his offering or introduce new products/services to meet customer needs

3. Which of the following statements with regard to joint ventures is not true?
   a. Joint ventures require less direct investment, training, management assistance, and technology transfer
   b. In an equity joint venture, each party gets profits in proportion to the amount of capital contributed by it
   c. In a co-operative joint venture, profits can be allocated depending on the agreement between the partners
   d. Joint ventures help a firm benefit from the local partner's knowledge of the host country's culture, language, and political systems
   e. In a joint venture both returns and risks are shared

4. Which of the following terms is used to refer to an arrangement through which an organization grants the rights to intangible property (like patents, inventions, formula, process, designs, copyrights, and trademarks) to another company for a specified period?
   a. Franchising
   b. Turnkey projects
   c. Strategic alliances
   d. Joint ventures
   e. Licensing

Activity 24.1

AyurPharma is a fast growing ayurvedic pharmaceutical company in India. The great demand for herbal products in the world markets has encouraged the company to enter the global arena. What are the various entry strategies available for pharma companies? Which strategy is more suitable for a multinational backed AyurPharma?

Answer:

24.6   Assessing Globalization

Though many service organizations aim to serve global markets, only a few succeed in achieving their goal. Some service organizations may serve some clients across the border or have a few units outside their countries, but this cannot be termed globalization. To be a global firm in the true sense, an organization has to do much more than just establish operations and serve clients outside their country. Some of the parameters that can be used to assess the level of globalization of a firm are discussed below.

Presence in strategic markets

Some countries have a strategic advantage over others, with respect to a particular service industry. For example, Silicon Valley is a strategic location for major global IT firms. Similarly, Paris, Hollywood and Central London are strategic locations for fashion designing, international films and banking services respectively. These locations have gained importance as they provide organizations with infrastructure and access to required resources. True global organizations should have a presence in these strategic locations. Presence does not mean the mere existence of an office building. The unit should perform strategically important functions and add value to the organization.

Location of value-adding activities

In the service industry, value-adding services like supplementary services hold the key to customer satisfaction. Thus, it is the, success of a service organization. In an intensely competitive market, organizations prefer locations that help them offer quality services at an attractive price. Most global service companies have for example identified locations like India, China and the Philippines, which have traditionally been used by manufacturing industries to cut down their costs. India leads other countries in offering IT and IT enabled services (ITES) for global

service organizations, owing to a large base of a highly skilled English speaking workforce, that comes at low cost. India also offers the advantage of good infrastructure facilities at a low cost and a stable social and political environment.

Achieving desirable balance between globalization and customization

True global organizations should be able to offer the same service standards to all the customers across the globe. However, if necessary, they should be equipped to offer customized services. In the case of services, customization appears at the point of consumption. For example, consultancy organizations like McKinsey operate globally and offer consultancy services for organizations across the globe. The employees gather information about each client organization, analyze it and present reports to the management, which then offers customized advice to the client. Some organizations need to customize their service processes and offerings to match the country they are operating in. In the banking industry, all banks issue loans at certain rate of interest to customers. However, in Middle East countries like Dubai, charging interest on a loan is against the Muslim law. Therefore, banks with operations in these countries need to customize their products and services to suit the local requirements.

Consistency in quality and pricing of services

Global organizations need to offer consistently high quality service to all their customers in all the countries in which they operate. Deviations in quality standards can affect the reputation of the service organization and its profitability. For example, the Sheraton and Holiday Inn hotels offer the same quality of services across its hotels in different parts of the globe. Similarly, the consultancy firm, PriceWaterhouseCoopers, provides consistently high quality tax and advisory services to all its international clients. These organizations charge a premium price from clients for their services. Though they may charge a different amount from different clients depending on the service offered, they ensure that the basic price charged for a particular service from any client remains the same. Large discrepancies in pricing for similar services can annoy clients, who may then take their business to competitors.

Responding to changes in environment

When a service organization becomes global, it has to gear up to respond to any change in any corner of the world that might affect its business either directly or indirectly. It has to constantly monitor the social, economic and political developments in different parts of the world. In addition, it has to formulate strategies to overcome threats and exploit the opportunities offered by these changes. It cannot afford to just track the moves of competitors within its industry. Because of the fast fading boundaries between industries, every organization needs to be alert to the moves of players in related industries as well.

**Example: McDonald's Achieving Desirable Balance Between
Globalization and Customization**

McDonald's was a successful global brand. While keeping its overarching branding consistent, McDonald's practiced "glocal" marketing efforts. No, that's not a typo. McDonald's brought a local flavor to different countries with region-specific menu items. For instance, McDonald's offered the McArabia, a flatbread sandwich, in its restaurants in the Middle East. McDonald's also introduced macaroons to its French menu, added McSpaghetti to its menu in the Philippines.

Source; Fleishman, H. (November 22, 2021). 13 Businesses With Brilliant Global Marketing Strategies.Retrieved from https://blog.hubspot.com/marketing/ global-marketing-and-international -business. Accessed on 08-06-2022.

24.7   Challenges in the Global Market

Service organizations that operate globally face various challenges. The special characteristics of services like intangibility, inseparability, heterogeneity and perishability pose specific challenges to global service providers. The intangible nature of services requires service providers to add tangibility to the services they offer, inseparability forces them to train employees to offer impeccable service, heterogeneity requires organizations to ensure consistency in delivering service and perishability requires them to balance demand and capacity effectively. Apart from these challenges, international service organizations face other challenges too like the following:

24.7.1 Legal Barriers

Legal barriers include: discriminating laws, subsidies, restrictions on foreign service provider's operations, infringement of copyrights and trademarks, etc., specific to each country of operation. For example, in Tanzania, an organization that seeks to establish its banking operations has to face many legal restrictions. It has to satisfy all the terms and conditions laid down by the central bank of Tanzania to earn a licence. The proposals for setting up a banking institution should include plans to offer financial services in the rural sectors and training and employment programs for citizens. The approval to any proposal depends on these plans. Further, banks cannot open a new branch or close an existing branch or declare dividends, without prior approval from the central bank.

Discriminating laws

Some countries have a legal system with policies that favor domestic firms and discriminate against foreign firms. For example, the branch offices of a foreign company in India are treated as a foreign company and are liable for higher income tax of 48%, as against 35.7% for companies set up in India. However, the tax slabs for branch offices and foreign companies have been changed. A branch

office is still viewed as an extension of the foreign company and hence as per FEMA 1999, it is still considered as a foreign company. As of 2019[17], the tax slabs of branch office, which is essentially a foreign company is divided into three categories: Tax of 41.60% for income below ₹ 1 crore, tax of 42.43% for income below ₹ 10 crores and 42.43% tax for branch office whose income is above ₹ 10 crores.

A foreign company can incorporate a subsidiary company as a private limited company under Companies Act 2013. With respect to subsidiary company, the following tax slabs exist: Tax of 26% when annual turnover is less than ₹ 250 crores and income is below ₹ 1 crore, Tax slab of 27.82% when annual turnover of subsidiary company exceeds ₹ 250 crores and income is below ₹ 10 crores and tax slab of 29.12 when income is above 10 crores. As of 2019, foreign companies that register as subsidiary company will be considered as Indian private companies and will face no discrimination.

Subsidies

Some countries offer subsidies and low interest loans to domestic organizations and protect them against foreign competition. For example, IT firms were given tax holidays by the government a few years ago when the industry was still in the nascent stages in India. The firms were not required to pay taxes for some years from the date of their establishment. Conversely, some countries offer sops to foreign players to encourage foreign investment that can aid development in the country.

Restrictions on foreign companies' entry

Some countries do not allow foreign companies to establish wholly-owned subsidiaries. Some impose a ceiling on the investment that can be made by foreign companies. In some cases, some of the industries or sectors can be closed to foreign players. For example, foreign companies were not allowed to invest in the agricultural and plantation sector in India. Similarly, a foreign company was not allowed to hold more than a 24% stake in a small-scale industrial unit in India. Since November 24, 2015, 100% foreign investment was allowed in the case of five plantation crops[18] (palm oil, coffee, olive oil tree, rubber, cardamom). 100% FDI is also permitted in tea plantation.

Infringement of copyrights and trademarks

Apart from these barriers, foreign service organizations also face the problem of violation of copyrights by local firms. Some local firms market their services using the trademark of a well-known foreign service organization. This is primarily because of the failure of the local government to strictly enforce

---

[17] https://taxguru.in/rbi/branch-office-subsidiary-company-option-foreign-company-entering-india.html

[18] https://www.fdi.finance/news/fdi-limits-in-different-sectors-in-india-2020

copyright laws. Firms like Microsoft, Oracle, etc. face problems with the sale of pirated copies of their software in many countries.

24.7.2 Cultural Barriers

Though convergence of tastes and preferences can be seen in some developing and developed countries, it is limited. There is a still a large cultural gap between the vast population of the eastern part of the world and that of the western countries. People in developing countries from the high-income group or socio-economic class, who get exposed to western culture, are influenced by it. There is still a large section of the society in developing countries, which is unexposed to and uninfluenced by the western culture. Therefore, differences still do exist in cultures, posing challenges to international service organizations. The cultural barriers arise from differences in language, customs and beliefs, values and attitudes, lifestyle, etc.

Language

People in different countries speak different languages and this poses difficulties to service organizations in effectively communicating with customers. Communication with internal as well as external customers, as we have already studied, is very important for service businesses to survive and flourish. In the absence of proper translation of messages from one language to another, service organizations can communicate unintended messages and land up in trouble.

Customs

Different countries have different customs and manners. "Customs are established practices, while manners are behaviors that are regarded as appropriate in a particular society." In some countries, people value time immensely and expect others to do the same. For example, say two parties from two different countries have an appointment at 5.00 p.m. The first party from country A values time immensely and is there at the appointed venue five minutes before the scheduled time. The second party of country B however, does not value time and reaches the venue 10 minutes late. This will naturally annoy the first party, and he would cancel the business dealing.

In some countries, it is customary to make or avoid some gestures to show their respect to the other party. The management of a service firm should learn this business etiquette to maintain positive relations with clients and partners.

The cultures of countries can be classified into low context and high context cultures. Most western counties have low context culture. In a low context culture, what is written in a statement is what is understood. Whatever may be the circumstances, the meaning of the statement will always remain the same. In a low context culture, the words and written documents are given greater importance. Japan is an example of a high context culture. Here, the situation in which a statement is made or written is more important than the statement itself.

Therefore, international service organizations should be careful in understanding the differences between these cultures and coping with them. Hofstede's model of cultural differences between nations also helps in better analysis of these barriers.

Values and attitudes

Values and attitudes differ from society to society. For example, most Muslims consider the pig as inauspicious. Hindus revere the cow as a holy animal. Therefore, international service organizations involved in the hospitality industry should take special care not to offer beef or pork so as not to hurt the religious sentiments of the people. McDonald's for example, takes special care to avoid beef in its menu in India.

Lifestyle

Lifestyle varies across countries. The way people spend their money, leisure time, etc., differs from one country to another. For example, earlier, people in India emphasized saving. There were not many who spent lavishly. However, things have changed and more and more Indians are willing to spend more on lifestyle and luxury items. The status symbols used by people to reflect their status, also differ from one country to another. For example, in India, most people value assets like jewelry. They try to accumulate as much silver and gold as possible. However, in the west, people prefer to buy luxury products like expensive cars. The way people spend their leisure time is also different. People's perception of beauty and aesthetics also varies across countries. The knowledge of these differences will help service organizations choose the right dress code for employees, the right architecture for buildings and design proper service offerings and marketing programs.

Example: Cosmetics Brands Efforts to a More Inclusive Vision of Positive Beauty

Cosmetics brands were under the scanner over products that promote skin fairness amid growing voices against racial stereotyping. This intensified in the wake of the 'Black Lives Matter' movement in the West in 2020.

Hindustan Unilever Limited in July, 2020, announced that the company renamed its popular skin care brand Fair & Lovely to "Glow & Lovely." The announcement came as an effort by the company to foray into "the evolution of its skin care portfolio to a more inclusive vision of Positive Beauty." Along with that, the men's range of Fair & Lovely will be called 'Glow & Handsome'. Unilever said it would rename its skin lightening cream that has drawn flak for promoting negative stereotypes related to darker skin tones.

French cosmetics major L'Oreal Group said it will drop words such as white, fair and light from all its skincare products.

Source: Banerjea, A. (02 July, 2020). Retrieved from https://www.livemint.com/companies/ news/hul-s-fair-lovely-renamed-as-glow-lovely-11593690657927.html. Accessed on 9-6-22.

124

24.7.3 Financial Barriers

Global service organizations also face financial barriers. Organizations planning to expand globally need more funds than those operating locally. Even though the returns are higher, they have to bear higher costs. These costs include the costs due to exchange rates and taxes, investment in a new business in terms of set-up costs, logistics solutions, communication systems, traveling, etc.

Changes in currency exchange rates

Different countries have different currencies. Depending on the economic condition of a country, the value of its currency keeps changing and so does its exchange rate. This poses problems in payments and collections for global service organizations. Any appreciation in the currency of the host country will result in the service provider receiving fewer of home country currency units from clients. Sometimes, they may also face double taxation, in both the exporting and importing country or the host and the home country. This will obviously affect the profitability of the organization. Before making an investment, service organizations should look for countries, which have double tax avoidance treaties with their own countries.

Problems with logistics

Service organizations need to invest in various resources to run their operations successfully in a country. For instance, E-commerce companies have to invest heavily in logistics to remain competitive.

Flipkart and Walmart 2019 made a joint strategic investment of $145 million in Ninjacart, a startup which provides business-to-business (B2B) supply chain infrastructure and technology solutions.[19]

Fast food outlets like McDonald's have to procure the best quality raw materials and other inputs to serve quality food to customers. McDonald's has to source bread, bun, batter mixes, meat, cheese, sauce, potatoes and other vegetables from the best suppliers, which means a lot of investment.

Check Your Progress - 2

5. Identify the statements that do not hold true regarding the parameters that can be used to assess the level of globalization of a firm.

    a. Consistency in quality and pricing of services

    b. Mere presence of the organization in strategic markets

    c. Achieving a balance between globalization and customization

    d. Responding to changes in the local environment

    e. Spread of products, technology and investment across various nations

---

[19] https://economictimes.indiatimes.com/tech/startups/flipkart-walmart-invest-145-million-in-ninjacart-in-online-grocery-push/articleshow/88258155.cms, December 13, 2021

6. Identify (from the following) the legal barriers faced by international service organizations.

   a. Languages spoken in the geographical area

   b. Changes in currency exchange rates

   c. Problems with logistics

   d. Infringement of copyrights and trademarks

   e. Customs and habits of local population

7. Which of the following options is not related to the cultural environment faced by international service organizations?

   a. Subsidies

   b. Values and attitudes

   c. Customs and habits

   d. Communication practices

   e. Festivals and occasions for celebration

Activity 24.2

IndInsure is a fast-growing insurance company in India that wants to expand its business to international markets, especially in the Asia Pacific region. The region seems to be promising with a steady growth for the insurance industry. Discuss the challenges a company may face on its international foray. What factors should the company consider while evaluating the market entry strategies?

Answer:

24.8 Factors Influencing Success of a Global Service Firm

Many factors such as innovation, excellence in customer service, efficient operations, etc., contribute to the success of an organization at the global level. A service firm needs to conduct a complete SWOT analysis before taking any major strategic decision. The success and survival of a company depends on its understanding of the differences among its countries of operation in terms of culture, consumer behavior, etc., and its ability to accommodate the differences.

Before entering a foreign country, a service organization needs to check if it has sufficient resources to venture into the market, if the mode of entry is appropriate,

if the demand in the market is adequate, if the management style is appropriate, and if it has the right people to deal with suppliers, the local authorities, etc. For example, Walt Disney had staffed its Latin America office located at Miami to take care of all the licensing arrangements in Latin America.

Select the right entry mode

An organization can enter a foreign market through several modes, as discussed earlier. However, it should choose its entry mode carefully so that it does not affect its competitive advantage. If it chooses to enter through a strategic alliance, for example, it should ensure that the partner has a strong hold in the market and can support it in gaining a strong foothold. Moreover, the partnership should not conflict with the business interests of either party and should benefit both. If the partnership terms favor one party, then the relationship may not last long because the losing partner will be on the constant lookout for exiting from the partnership. Similarly, if an organization decides to enter a foreign market through merger or acquisition, it might face different kinds of difficulties. It might have difficulties in merging the operations of both firms, changing the culture of the workforce, leveraging synergies, etc. If an organization wants to establish a wholly owned subsidiary in a foreign country, it should look for the right location to gain benefits like cheap infrastructure, government support, educated workforce, low salaries, political stability, security, favorable laws and regulations, etc.

Select the right marketing research methods

In some countries, people do not want to answer personal questions and dislike being monitored. It would be difficult for organizations to conduct marketing research in such countries. Therefore, service organizations should use indirect measurement techniques, which do not involve approaching customers directly. Rather, they may have to collect information from service providers who can provide reliable data and information on consumer behavior.

Customize the service offering

Global service providers should customize their services to suit the tastes and preferences of customers in different countries. For example, in some countries, people do not like invasion of privacy. In such situations, service organizations such as those in hospitality industry should ensure that their service personnel do not take the initiative to try and entertain customers. However, in some countries people may expect the service personnel to keep enquiring about their needs and taking care of them. In such cases, the front-line personnel should be pro-active and approach customers before they feel they are not being attended to. Similarly, during an economic downturn, companies might need to customize their service offering to suit the existing needs of the customers. This can help the firms create a demand for their services and improve their business even during a period of recession.

Train the service personnel

Service personnel should be educated about the differences in the cultures of the customers they serve. For example, the service personnel in a Chinese restaurant need to realize that they have to treat an Indian customer and an American customer differently. The service personnel should be trained to customize their service offering and delivery to suit the customer's preference. In some countries, people are not comfortable talking to a salesperson on the phone. They expect the salesperson to visit their home/office and explain the service offer to them in person. Service personnel need to be trained to catch the pulse of the customer immediately and change their approach strategy accordingly.

Select the right promotion strategy

In some countries like Japan, comparative and aggressive advertising is unacceptable. So, in these countries, service firms should emphasize the benefits of their service offering rather than point out the drawbacks of the competitors' service offerings. In countries like the US and India, where such advertising is allowed, at least in some sectors, service organizations should use the opportunity to explain to customers how their service offers outweigh those of their competitors. For example, in India, ICICI Bank advertises that it does not charge any processing fee from customers who apply for home loans. HDFC claims that it charges a processing fee for home loans, but provides many valuable supplementary services unlike its competitors, who might not charge any processing fee, but include hidden costs for customers.

24.8.1 World Trade Organization and GATS (General Agreement on Trade in Services)

Prior to 1995, trade agreements were designed to enhance trade in goods. The Uruguay round of WTO negotiations that culminated on January 1995, resulted in the treaty of GATS. The creation of GATS is considered as one of the landmark achievements. The objectives of GATS is the same as that of GATT (General Agreement on Trade and Tariff): create a system of international trade rules that will be followed by all member countries, guarantee fair and equitable treatment to all member countries, promote economic and trade reforms for development and economic growth, operate on the principle of non-discrimination.

The new trade agreement, GATS, includes services like health care, education, drinking water, banking, telecommunications, tourism, transportation, waste disposal, oil and gas production, electricity and postal services. Services like healthcare, drinking water, electricity, postal services, waste disposal are considered as amenities and the government provides these services in most countries. In India even sectors like oil and natural gas, banking, telecommunication were public sector monopolies and these were opened up for private participation only after 1991.

Many services have become internationally mobile. New technology has drastically brought down the cost of transmitting information and this technological development has led to offshoring and outsourcing of IT and software work. Transnational service organizations in banks, telecommunications, and education, healthcare are expanding geographically to take advantage of the growing demand for these services in emerging markets. The introduction of new transmission technologies (e-banking, e-tailing, online education, e-commerce) has triggered the geographic expansion drive of these companies. While services account for over 60% of global production and employment, they account for only 20% of the total trade.

The overriding objective of GATS is to remove barriers to trade in services. Member countries however have the freedom of choice to go slow on certain service industries and focus on liberalization and globalization of certain other sectors. The objective here is to create a stable trading environment.

24.8.2 Foreign Direct Investment (FDI) in Various Sectors and Impact

The growing internationalization of services has led to an apparent trend wherein trade in services and FDI in services have grown at a faster rate as compared to that of goods. Trends in FDI also point to the fact that developing economies are emerging as major destinations of FDI. FDI plays a very important role in the growth and development of a nation, particularly developing countries. FDI complements domestic investment and contributes to capital formation which is an important determinant of growth.

India's economic reforms initiated in the 1990s have resulted in India emerging as a favorite destination of FDI. A.T Kearney has ranked India second in FDI attractiveness, next only to China. Availability of people and skills at low cost, low real estate cost has made India financially attractive for MNCs. The positive perception of foreign investors are also on account of a fundamentally strong India that is growing economically at a faster pace on account of the foundations laid by implementation of economic reforms over the years from 1990s.

FDI Inflows: Total FDI into India, since January 2000 till December 2017 is US$ 368.60 billion. FDI into India was at all-time high of $83.57 billion in 2021-22, led by manufacturing. Singapore was the topmost investor in India, accounting for 27% of the FDI, followed by the US at 18% and Mauritius at 16%. [20]

Impact of FDI

A study of India's growth history since independence indicates that there is a positive correlation between FDI inflows and growth rate. There is no doubt that FDI complements domestic investment and helps the Indian economy grow at a faster pace. Policies favourable to attracting FDI have become a part of the economic policy of the country. India has tremendous potential of attracting FDI.

---

[20] https://www.business-standard.com/article/markets/fdi-inflow-at-all-time-high-of-83-57-bn-in-2021-22-led-by-manufacturing-122052001043_1.html

The 'Make in India' initiative launched by Prime Minister Narendra Modi in September 2014 targets growth in manufacturing sector through FDI inflows. However, growth of manufacturing sector contributes to growth of services sector as well. Hence, the services sector would also benefit through this initiative.

Example: Nike's Successful Strategies

Nike was able to evolve its global presence through the careful selection of international sponsorships, such as its previous long-standing relationship with Manchester United. Although sponsorship spending can be fairly unpredictable — demand costs tend to surge due to triggers like championships and tournaments — these partnerships certainly helped the brand capture the attention of a global audience.

Nike's "Nike by You" co-creation platform served as another strategy that the company was using to appeal to international markets. By putting the power of design into the hands of the consumer, Nike was able to deliver customized products that align with different cultural preferences and styles.

Source: Fleishman, H. (November 22, 2021). 13 Businesses With Brilliant Global Marketing Strategies. Retrieved from https://blog.hubspot.com/marketing/ global-marketing-and-international-business. Accessed on 9-6-22.

24.9 Prospects for the Global Marketing of Services

According to an UNCTAD (United Nations Conference on Trade and Development) report of 2002, banking and insurance, business services, tourism, transportation, computer-related services and retailing would attract FDI in the coming years in the Asia and Pacific region. In Central and Eastern Europe, services in construction, real estate, transport, education, health, computer-related services; in Latin America, banking and insurance and hotels, restaurant, tourism services and in other developed countries, transport and business services are expected to attract considerable FDI flows.

This indicates the rapid growth of the service sector across various countries in the world.

Many global insurance companies like Allianz, Prudential, ING, etc., are actively operating in India through strategic alliances. In the telecommunications industry, players like Verizon, China mobile and AT&T are expanding across the globe and are giving tough competition to local players in India. On the other hand, players from India like Bharti Telecom and Reliance have plans for global expansion. Indian IT firms like Infosys, Wipro, and TCS are renowned world-class IT service organizations, serving many Fortune 500 clients. They are now moving from lower-end services to higher end services, offering more value addition to their customers. Likewise, healthcare industry and tourism in India are attracting many foreign customers, creating excellent business opportunities.

In India, the concept of medical tourism is fast catching up, as people who come from foreign countries for treatment, also visit many tourist places. Native Indian therapies like ayurveda and yoga compete with modern hospitals like Apollo in offering treatment to customers.

During the WTO talks, it was developed countries like the US and the UK that encouraged developing countries to sign agreements like GATS to speed up the process of globalization. With the pace of globalization picking up, organizations are under pressure to cut down costs and offer their services at competitive prices to customers. So, they are outsourcing most of their operations to locations where they can be carried out effectively and efficiently. This will offer firms the dual benefits of low cost and quality service. India is at the forefront of the business process outsourcing industry, making the best of the BPO opportunities. By the year 2020, the Indian outsourcing industry (includes both BPO and IT) is expected to touch a high $225 billion[21]. However, people in developed countries see this shifting of jobs and business to developing countries as a practice that could deprive them of their livelihood. They are organizing protests against outsourcing and are even against organizations in their countries hiring professionals from developing countries. They believe that this practice is depriving local citizens of jobs and increasing artificial unemployment. If the governments in these nations decide against outsourcing, it will mean a major loss for Indian industry. At the same time, it would also be a loss of business opportunity for the foreign companies as they lose their competitive advantage of low cost and efficient service. This could lead to a situation where they lose out to their competitors from other countries.

Example: Coinbase Slows on Hiring in India as Markets Face a Downturn

Coinbase Global, Inc., branded Coinbase, an American company that operated a cryptocurrency exchange platform. Coinbase, the largest US crypto exchange in June, 2022, announced a hiring freeze and even rescinded accepted offers across its global offices. In April, Coinbase's CEO Brian Armstrong announced that the company planned to triple its workforce to 1,000 in India.

Emilie Choi, president and chief operating officer at Coinbase said, "Heading into this year, we planned to triple the size of the company. Given current market conditions, we feel it's prudent to slow hiring and reassess our headcount needs against our highest-priority business goals".

Source: Mittal, A. (June 8, 2022). After Coinbase, WazirX and Unocoin to Slow Down Hiring. Retrieved from https://economictimes.indiatimes.com/tech/startups/ after-coinbase-wazirx-and-unocoin-to-slow-down-hiring/articleshow/92081022.cms?utm_source=contentofinterest&utm_ medium=text&utm_campaign=cppst. Accessed on 09-06-2022.

---

[21] https://www.outsource2india.com/why_india/articles/bpo-industry-challenges-india.asp

Check Your Progress - 3

8. Which of the actions stated in the options below is least likely to influence the success of a global service firm?

   a. The global firm should choose its entry mode carefully so that it does not affect its competitive advantage

   b. It should use direct measurement techniques, which involve approaching customers directly

   c. It should customize its services to suit the tastes and preferences of customers in different countries

   d. Its service personnel should be educated about the differences in the cultures of the customers they serve

   e. The global firm could enter into a joint venture alliance with a local company that has better knowledge of the local market

9. Which of the following statements hold true regarding the selection of a mode of entry into a foreign market by a service organization?

   a. The service organization should select a team of trusted professionals only from its own home country to assist and set up overseas operations

   b. It should choose its entry mode carefully so that it does not affect its competitive advantage

   c. If it chooses to enter through a strategic alliance, it should ensure that the partner has a stronghold in the market and can support it in gaining a strong foothold

   d. If an organization decides to enter a foreign market through a merger or acquisition, it might face difficulties in merging the operations of both firms, changing the culture of the workforce, leveraging synergies, etc.

   e. If an organization wants to establish a wholly owned subsidiary in a foreign country, it should look for the right location to gain benefits like cheap infrastructure, government support, educated workforce, low cost etc.

10. Which of the factors given below has facilitated the rapid expansion of services across countries?

    a. Machines

    b. Factories

    c. Information and communication technology

    d. Labour

    e. Money

24.10 Digital Economy and the Changed Global Business Environment

The rapid developments in the Information and Communication Technology (ICT) have reached a turning point and the world is witnessing a fundamental transformation in economic structure of nations and businesses. The evolving new economy is digital economy. The rapid spread of Digital Information and Communication System (DICS) has produced significant changes in the way goods and services are produced, distributed and consumed. Developments in telecommunications, satellite services, mobile commerce, cloud computing, social networking are transforming the relationships between businesses, middlemen and consumers. Consumers have become very powerful and businesses need to constantly innovate to stay ahead of competition in better satisfying the modern consumer who is sophisticated and demanding. The forces that are driving the change are SMAC, i.e., Social media, Mobile, Analytics and Cloud. The outcome of SMAC is evident in the changed global business environment with the following developments:

1. **Over-The-Top services:** Over-The –Top (OTT) application is a service that makes available the product or service over the internet. Therefore, it disrupts and bypasses traditional distribution. Eg. Skype that displaces an STD (Subscriber Trunk Dialer) or ISD (International Subscriber Dialing) service, E-Com that replaces brick and mortar retail and MOOC (Massive Open Online Course) that may in the future perhaps provide an alternative to classroom teaching.

2. **Global e-commerce:** The internet has the potential to become an active trade vehicle and in many countries E-Com has already become a huge threat to traditional brick and mortar companies. Countries are yet to create new laws to keep pace with the growth of e-commerce.

3. **E-payment:** Payment of bills online or through mobile.

4. **Mobile commerce:** Mobile Commerce is getting popular with the new economy persons owning trendy smartphones. More and more mobile users are accessing the internet through mobile phones. Hence, it is not surprising that Mobile commerce is witnessing growth.

5. **Global digital advertising and marketing:** Digital's share of total ad spending is predicted to be around 60% by 2022. The digital advertising spending worldwide amounted to 521.02 billion U.S. dollars in 2021. According to Statista, by 2026, the spending would be 876 billion dollars.[22] With the widespread use of laptops, smartphones and internet, this trend is not surprising.

---

[22] https://www.statista.com/statistics/237974/online-advertising-spending-worldwide/, June 2, 2022

The internet has removed all distance barriers and the world has become one global village. It is evident that the digital economy is changing the way we do things and these changes are happening at a very fast pace. The global business environment is changing at a very fast pace and only those businesses that are able to change their business models are able to survive in the market.

24.10.1 Global Digital Economy and its Impact on India: Offshoring and Outsourcing

India is witnessing amazing developments in areas like broadband Net access, high-speed mobility, and e-commerce. The forecast that India — with its scale, its energy and its consumers — could become a digital laboratory and growth engine may come true in the near future.

Offshoring and Outsourcing

Indian IT professionals have witnessed more opportunities due to outsourcing and offshoring of IT functions by Western firms, to India. The rapid strides witnessed in Information and Communication Technology in India helped India to take advantage of these favorable trends. Attracted by talent, low cost and quality work, high salary countries like USA are offshoring their IT and software work to India (a low wage country). Outsourcing refers to that where a company contracts its work to a third party. Offshoring refers to that where a company relocates certain functions to another country to take advantage of the low cost of production in that country. The term offshoring applies to the USA and European countries because these countries outsource work over the seas to countries like India, China, Malaysia and Philippines. USA outsources to Canada and Germany outsources across borders to Eastern Europe, but there are no seas crossed here.

Multi-National Companies use these strategies to reduce business costs. India is considered a hot destination for outsourcing and offshoring of IT work, due to the following reasons:

- India has a huge population and a large pool of educated and semi educated workforce who speak English.

- The quality of back-office jobs done in India is rated high. The processing and execution ability of Indians is considered superior.

- The cost of living in India is low. Hence, the salaries paid are also much lower as compared to what is paid in developed countries for similar jobs.

- It is possible to modularize IT processes and get a better job done at a much lower cost by outsourcing or offshoring them.

India is the world's largest sourcing destination for IT & ITeS

India is the world's largest sourcing destination for the Information Technology (IT) industry, accounting for approximately 52 per cent of the US$ 124-130 billion market. The industry employs about 10 million Indians and continues to contribute significantly to the social and economic transformation in the country.

The Indian IT and ITeS industry are divided into four major segments – IT services, Business Process Management (BPM), software products and engineering services, and hardware.

According to the National Association of Software and Service Companies (Nasscom), the Indian IT industry's revenue is expected to touch US$ 227 billion in FY22 from US$ 196 billion in FY21. Exports from the Indian IT industry were at US$ 149 billion in FY21. Export of IT services has been the major contributor, accounting for more than 51% of total IT export (including hardware). BPM and Engineering and R&D (ER&D) and software products exports accounted for 20.78% each of total IT exports during FY21. The IT and ITeS industry exports are expected to touch USD 350 million by 2025.

Example: Netflix, One of the World's Largest Streaming Service

Netflix Inc. was an American OTT headquartered in California. It was established in 1997. The company's core business was subscription-based streaming services. Since 2012, the company offered content through its online library.

Netflix was the world's leading streaming entertainment service with 222 million paid memberships in over 190 countries enjoying TV series, documentaries, feature films and mobile games across a wide variety of genres and languages. Members can watch as much as they want, anytime, anywhere, on any internet-connected screen. Members can play, pause and resume watching, all without commercials or commitments.

Netflix was one of the video streaming services in India, which offered various flexible plans like mobile, basic, standard and premium plans. Netflix had 4.6 million paid subscribers in India as of 2020 reports. In 2020, the company's operating income was $1.2 billion. Operating revenue showed a jump of Rs 924 in the FY20.

Source: Sahaf, M., F. (February 19, 2022). Ten Most Popular OTT Platforms in India According to Market Share? Retrieved from https://groundreport.in/ten- most-popular-ott-platforms-in-india-according-to-market-share/; Accessed on 09-06-2022

24.11 E-Governance

According to Statista, the number of internet users in India was around 622 million[23] (2020).[24] The number of internet users is currently growing at a very high rate of 40%. With this kind of internet penetration, it is not surprising that every service these days is offered online, services of government of India included

---

[23] https://www.statista.com/statistics/255146/number-of-internet-users-in-india/

[24] https://www.statista.com/statistics/1257929/india-number-of-active-internet-users/

E-governance refers to the services provided by government through websites. It is also considered as a process of reform in the way Governments work, share information and deliver services to the Indian citizens. To facilitate E-Governance, various information technologies such as Wide Area Networks, the internet and mobile computing are harnessed. The objective of E-governance is to empower citizens through dissemination of information and better delivery of government service to citizens and facilitate better interactions with corporate citizens. It is also believed that E-governance would reduce corruption by increasing transparency. Other stated objectives are convenience to customers, revenue growth and low cost service.

The following are the benefits to citizens:

- Citizens can easily access the information published in the website. They can keep themselves abreast of the changes in government policies, legislation and other procedures.

- Citizens can download applications.

- Citizens can deliver documents electronically.

- The applications get processed, where more than one department is involved in processing, the same is done and services are rendered electronically. Thus, citizens escape the hassles of standing in long queues in government offices.

- E-governance provides reliable and useful information to citizens.

- With E-governance, citizens are aware of their rights and entitlements. Hence, accountability of government increases. Citizens can ensure that taxpayers' money is well spent.

- Interactivity between government and citizens increase. Thus, there is greater trust and bonding.

E-governance is perceived as a blessing to the citizens of India like online filing of tax returns. However, lack of awareness towards use of internet, insecurity towards e-payment and lack of reliable and high speed internet service are cited as reasons for the limited growth and usage of E-commerce.

24.11.1 Aadhaar UID (Unique Identification Number)

The UIDAI (Unique Identification Authority of India) is an agency of the Government of India and it undertakes to provide a unique identification number to all person residents in India. The UIA scheme called Aadhaar scheme aims at providing every individual Indian a unique identity. UIDAI, which was established in 2009 owns and operates the UID number database.

The following are the benefits of Aadhaar scheme:

- Aadhaar gives every individual a unique number (UID: Unique Identification) and there cannot be any duplication because UID is linked to the individual's biometrics.

- Fake or ghost identities get created in the traditional identification cards like Ration card or Voters' identification card. There is no scope for such leakages because UID is based on biometrics and demographic identity.

- The concept of UID is like the Social Security Number issued in the USA. Conceptually, the Aadhaar is more than an identity card. It can help in distribution of social welfare benefits. Hence, it is a social inclusion scheme as well.

- A bank account linked to Aadhaar number is called Aadhaar Enabled Bank Account (AEBA). AEBA facilitates bank transactions based on Aadhaar number. This is beneficial to banks because the Aadhaar data which is authenticated will be transferred to fulfill bank's Know Your Customer (KYC) norms.

- Airport security check can also be expedited through Aadhaar number.

To sum up, UID is a revolutionary concept with the goal of providing all citizens a 12 digit number based on biometric and demographic identification. While the apparent goal is to provide identification numbers, the scheme has other broader objectives: financial inclusion, distribution of social security benefits, security check, linkage to banking account and serve as a common link to a host of other transactions.

24.11.2 Public Provident Fund (PPF)

In India, the PPF is both a savings scheme and tax saving instrument. In the year 1968, the National Savings Institute of the Ministry of Finance introduced the PPF scheme to mobilize small savings by incorporating tax saving benefits and incentives in the scheme.

The following are the features of the scheme:

- The scheme is open to residents of India. Non-Resident Indians are not eligible to open an account under the PPF scheme.

- Under the PPF scheme, an account can be opened with any nationalized bank or specified private bank or post office.

- Any individual can open an account (only one account permitted). A minor can open an account in the name of his legal guardian.

- A minimum deposit of ₹ 500 is mandatory to open a PPF account. The maximum limit is ₹ 1.5 lakh (in any given financial year). If the amount deposited exceeds ₹ 1.5 lakh, the amount which is in surplus will neither earn any interest nor be eligible for income tax exemption.

- The interest is paid on 31st March every year.

- A depositor can avail loans on the PPF account deposit.

PPF is thus a popular scheme for small investors with the added incentive of tax rebate. As pointed out earlier, PPF account can be opened in any bank. It is simple to operate and the investment is totally risk free.

24.11.3 E-Filing of Tax Returns

E-filing is referred to as the process of filing tax returns online. In India, E-filing of income tax was introduced in the year 2004, on a voluntary basis. E-filing of tax returns was made mandatory for all corporate firms in the year 2006. E-filing was made mandatory for companies in the year 2008 and from 2019 onwards e-filing has been made mandatory for all individuals with income greater than ₹ 5 lakh.

The first step under E-filing is to register and log-in using Permanent Account Number (PAN). Once the process of logging in is complete, the income tax assessee has to click on the assessment year and the category to which he/she belongs to (salaried income, etc.) and download the appropriate form and the excel calculator. The excel calculator that helps calculate the tax, can be saved. The income column is filled, tax is calculated. The excel calculator is uploaded and then the form is submitted.

Benefits of E-filing of tax return: The following are the benefits of E-filing[25]:

- Easy and convenient
- Saves time: As compared to the traditional method, E-filing saves time.
- Excel calculator does all the calculations. No need to employ the services of tax practitioners to do the calculations.
- 24 hours service on all days in a week: Taxpayers can access the service at his convenience
- Cumbersome and boring paperwork is avoided
- The moment the excel calculator and the appropriate form is submitted, the taxpayer would instantly receive a payment acknowledgement receipt.
- The taxpayer can check the status of refund.
- Taxpayers can see how much tax they need to pay. They can make investments (investments that can be deducted from total income) to avoid taxes.
- Taxpayers can track status of refund and can speed up the process of getting refund.
- Taxpayers can make corrections if they commit mistakes (many times) before submitting.

---

[25] Source: Mukesh Kumar, Mohammad Anees, "E-Filing: Creating New Revolution in Taxation of India," Global Journal of Finance and Management, November 2014.

Taxpayers can seek clarifications from user guides and seek online help as well.

Example: IRCTC facilitates Passengers through Aadhaar

The Indian Railways in June, 2022 announced that people whose user ID of the Indian Railways Catering and Tourism Corporation (IRCTC) was linked to Aadhaar can now book a maximum of 24 tickets a month, while those whose IDs are not Aadhaar-linked can purchase as many as 12 tickets.

In April, 2022, the IRCTC revised the online ticket booking process using both the website and the app. It made mandatory for passengers to get their phone numbers as well as email IDs verified before booking train tickets. In a statement, the Ministry of Railways said that the move was aimed to "facilitate passengers" during the process of booking tickets.

Source: Dutta, S. (June 6, 2022). IRCTC Changes Rules for User Ids Linked to Aadhaar, Allows Booking of 24 Tickets A Month. Retrieved from https://www.hindustantimes.com/india-news/irctc-changes-rules-for-user-ids-linked-to-aadhaar-allows-booking-of-24-tickets-101654506564782.html. Accessed on 10-06-2022.

24.12 Summary

- Globalization refers to the free movement of goods, services, people, capital, and technology across the globe.

- Globalization has been given a major thrust by agreements like GATS, signed by several countries in the world.

- The major factors that drive globalization are changes in social factors, technology, political and legal conditions, the competition scenario, and the urge to gain a competitive advantage.

- Organizations can enter foreign markets using different modes of entry. These include: exporting, turnkey projects, licensing, franchising, joint ventures, wholly-owned subsidiaries, strategic alliances, mergers and acquisitions, and piggybacking.

- Though many organizations aim for globalization, only a few succeed in it.

- The parameters that can be used to measure the level of globalization achieved by an organization are presence in strategic markets, location of value-adding activities, achieving a desirable balance between globalization and customization, consistency in quality and pricing of services, and responding to the changes in the environment.

- Some of the major challenges faced by organizations in establishing and expanding their operations in foreign markets are legal barriers, cultural barriers, and financial barriers.

- The factors that contribute to the success of a global firm are: selecting the right entry mode, selecting the right marketing research methods, customizing the service offering, training the service personnel, and selecting the right promotion strategy.

- Though the prospects for globalization of services marketing are high, some forces are opposing it and trying to slow down the pace.

24.13 Glossary

Equity and Co-Operative Joint Ventures: These are types of joint ventures. In an equity joint venture, each party gets profits in proportion to the amount of capital contributed by it. In a co-operative joint venture, profits can be allocated depending on the agreement between the partners.

Franchising: It is like licensing except that it requires a long-term commitment on the part of both the franchisor and the franchisee. In franchising, the franchisor allows the franchisee to use its intangible property like the brand name and the operating procedures but insists that the franchisee follow the standards and rules of the business specified by it.

Joint Ventures: Joint ventures allow companies to own a stake, and simultaneously play a role in the management of foreign operations.

Licensing: It is an arrangement through which an organization (licensor) grants the rights to intangible property like patents, inventions, formula, process, designs, copyrights and trademarks to another company (licensee) for a specified period.

Piggyback: In this method, an organization takes the help of another organization to market its products/services in a foreign market.

Turnkey Projects: In a turnkey project, the contractor handles every aspect of the project for a foreign client, from the planning and inception stage to completion and handover. After the completion of the contract, the system or plant is handed over to the foreign client.

24.14 Self-Assessment Test

1. For a long time, it was believed that services could not be marketed globally. Advancements in various areas have made globalization of services possible. Explain the various factors that have contributed to growth in the global service markets. Discuss the factors influencing globalization.

2. Different organizations enter different markets for different reasons and in different ways. What are the various overseas market entry decisions that can be taken by service organizations?

3. Though many service organizations aim to serve global markets, only a few succeed in achieving their goal. Describe the parameters that can be used to assess the level of globalization of a firm. What are the challenges faced by organizations in the global market? Also discuss the factors influencing success of global firms.

4. The service sector is growing rapidly across various countries in the world. Discuss the prospects for the global marketing of services.

24.15 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.

24.16 Answers to Check Your Progress Questions

1. **(b) Turnkey project**

    In a turnkey project, the contractor handles every aspect of the project for a foreign client, from the planning and inception stage to completion and handover. The main advantage of turnkey projects is the high financial returns from built and installed assets. The disadvantage of turnkey projects is that firms that enter a turnkey deal have no long-term interest or stake in the foreign country. In addition, firms that take up turnkey projects for a foreign enterprise may be creating a competitor.

2. **(a) In this method, an organization takes the help of another organization to market its products/services in a foreign market**

    Except option (a), all the other options are false regarding the piggyback method. In the piggyback method, the organization which carries the product/service into the foreign market through its channel is called the carrier. The organization that uses the partner's channel is called the rider. The rider does not interact directly with customers. Thus, he may fail to have access to necessary information to improve his offering or introduce new products/services to meet customer needs.

3. (a) **Joint ventures require less direct investment, training, management assistance, and technology transfer**

    All the statements are true regarding joint ventures, except statement (a). Joint ventures require more direct investment, training, management assistance, and technology transfer.

4. (e) **Licensing**

    Licensing is an arrangement through which an organization (licensor) grants the rights to intangible property like patents, inventions, formula, process, designs, copyrights, and trademarks to another company (licensee) for a specified period. The licensor in return receives a royalty fee from the licensee for the rights.

5. (b) **Mere presence of the organization in strategic markets**

    All the options are true regarding the parameters that can be used to assess the level of globalization of a firm, except option (b). True global organizations should have a presence in these strategic locations. Presence does not mean the mere existence of an office building. The unit should perform strategically important functions and add value to the organization.

6. (d) **Infringement of copyrights and trademarks**

    The legal barriers faced by service organizations include: discriminating laws, subsidies, restrictions on foreign companies' entry, and infringement of copyrights and trademarks. Language and customs are cultural barriers. Changes in currency exchange rates and problems with logistics are financial barriers.

7. (a) **Subsidies**

    Values and attitudes, customs and habits, communication style and festivals and occasions for celebrations relate to culture. The only option that has no connection with cultural is 'subsidies'.

8. (b) **It should use direct measurement techniques, which involve approaching customers directly**

    All the options are true regarding the factors that influence the success of a global service firm, except option ii. In some countries, people do not want to answer personal questions and dislike being monitored. It would be difficult for organizations to conduct marketing research in such countries. Therefore, service organizations should use indirect measurement techniques which do not involve approaching customers directly. Rather, they may have to collect information from service providers who can provide reliable data and information on consumer behavior.

9. (a) **The service organization should select a team of trusted professionals only from its own home country to assist and set up overseas operations**

    All the statements are true regarding the selection of a mode of entry into a foreign market by a service organization, except option 'a'. The team of professionals that assist and set up overseas operations for the service organization should include professionals from the host country and home country.

10. (c) **Information and Communication Technology**

    Services sector contributes the maximum to global trade. The production of services across countries has primarily been facilitated by the rapid progress in the field of Information and Communication Technology.

Services Marketing

Course Structure

Block 1: Introduction to Services Marketing	
Unit 1	Service Economy Trends in National and Global Scenario
Unit 2	Understanding Services
Unit 3	The Nature of Services Marketing
Unit 4	Consumer Behavior
Unit 5	Customer Expectations and Perceptions
Unit 6	Listening to Customers
Block 2: Strategic Issues in Services Marketing	
Unit 7	Market Segmentation and Targeting
Unit 8	Positioning and Differentiation of Services
Unit 9	Managing Demand and Capacity
Unit 10	Role of Technology in Services
Block 3:Services and the Marketing Mix – I	
Unit 11	The Marketing Mix Elements
Unit 12	Product: Packaging the Service
Unit 13	Pricing Services
Unit 14	Promotion and Communication of Services
Block 4: Services and the Marketing Mix – II	
Unit 15	Place in Services
Unit 16	People in Services
Unit 17	Process in Services
Unit 18	Physical Evidence
Unit 19	The Service Setting
Block 5: Maximizing Service Potential and Challenges for Senior Management	
Unit 20	Internal Marketing
Unit 21	Service Failures and Service Recovery
Unit 22	Customer Relationship Management (CRM)
Unit 23	Developing and Managing the Customer Service Function
Unit 24	Globalization of Services